Docket: : A.06-07-022

Exhibit Number

Commissioner : John Bohn

Admin. Law Judge : Christine Walwyn

DRA Project Mgr. : Yoke Chan



# DIVISION OF RATEPAYER ADVOCATES CALIFORNIA PUBLIC UTILITIES COMMISSION

# REPORT ON THE RESULTS OF OPERATIONS IN SOUTH SAN FRANCISCO DISTRICT OF

## CALIFORNIA WATER SERVICE COMPANY

Test Year 2007-2008 and Escalation Years 2008-2009, 2009-2010 and 2010-2011 Application 06-07-022

> For authority to increase water rates located in its South San Francisco District serving South San Francisco and vicinity, San Mateo County.

> > San Francisco, California December 8, 2006

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1	
2 3	MEMORANDUM
4	The Division of Ratepayer Advocates ("DRA") of the California Public
5	Utilities Commission ("Commission") prepared this report in the California Water
6	Service Company's ("CWS") rate case proceeding A.06-07-022 rate case
7	proceeding. In this docket, the Applicant requests an order for authorization to
8	increase rates charged for water service by \$ 2,672,150 or 25.22% in fiscal year
9	2007-2008; by \$676,100 or 5.1% in fiscal year 2008-2009; by \$676,100 or 4.9%
10	in fiscal year 2009-2010 and by \$676,100 or 4.6% in fiscal 2010-2011 in its South
1	San Francisco District service area. DRA presents its analysis and
12	recommendations associated with the Applicant's request.
13	Yoke Chan serves as DRA's project coordinator in this review and is
14	responsible for the overall coordination in the preparation of this report. DRA's
15	witnesses' prepared qualifications and testimony are contained in Appendix A of
16	this report.
17	DRA's legal counsel for this case is Selina Shek.
18	DRA's recommendation on Cost of Capital is discussed in a separate
19	report.

1	EXECUTIVE SUMMARY
2	
3	CWS requested an increase of 25.22% in test year 2007-08 and 5.1% in
4	Escalation Year 2008-09, whereas DRA recommends an increase of 9.9% in Test
5	Year 2007-08 and inflationary increases for the Escalation Years.
6	Key Recommendations
7	DRA's recommendations are based on lower estimates of Operation and
8	Maintenance expenses (Chapter 3), lower estimates of Administrative and General
9	expenses (Chapter 4), lower Plant additions (Chapter 7), a lower Cost of Capital of
10	9.54% and lower Rate of Return on Rate Base of 8.30% for 2007-2008 and 2008-
11	2009 (Chapters 1 and 13).
12	In addition, DRA recommends the following treatment to CWS' Special
13	Requests as discussed further in chapter 12:
14	(a) Water Quality
15	CWS requests that the Commission make a finding that the district water
16	quality meets all applicable state and federal drinking water standards and the
17	provisions of General Order 103. DRA reviews CWS' filings and agrees that
18	CWS has complied with applicable water quality standards during the most recent
19	three-year period.
20	(b) Water Revenue Adjustment Mechanism
21	CWS requests a revenue adjustment mechanism that decouples sales and
22	revenues. This was excluded in the scope of this proceeding

1	(c) Filing an offset rate increase in 2008 to reflect the General
2	Office allocation adopted in CWS' 2007 GRC
3	CWS requests authorization to file an offset rate increase in 2008 to reflect
4	the general office allocation adopted in its 2007 general rate case filing. This was
5	excluded in the scope of this proceeding
6	(d) Total water cost balancing account
7	CWS requests a total water cost balancing account to track the water supply
8	mix changes among ground water and purchased water supplies. This was
9	excluded in the scope of this proceeding
10	(e) To amortize all balancing and memorandum accounts
11	CWS requests an authority to amortize all balancing and memorandum
12	account balances in this district. DRA agrees that all balancing and memorandum
13	accounts should be amortized.
14	(f) Additional attrition year 2010-2011
15	CWS requests an additional attrition year so that the next South San
16	Francisco GRC can be filed in 2010. DRA does not oppose CWS' request.

## **List of DRA Witnesses and Respective Chapters**

Chapter	Description	Witness
Number	Description	Witness
-	Executive Summary	
1	Overview and Policy Introduction and Summary of Earnings	Yoke Chan
2	Water Consumption and Operating Revenues	Toni Canova
3	Operation and Maintenance Expenses	Vibert Greene
4	Administrative and General Expenses	Cleason Willis
5	Taxes Other Than Income	Cleason Willis
6	Income Taxes	Vibert Greene
7	Utility Plant in Service	Clement Lan
8	Depreciation Reserve and Depreciation Expense	Joyce Steingass
9	Rate Base	Joyce Steingass
10	Customer Service	Katie Liu
11	Rate Design	Tatiana Olea
12	Special Requests	Lan, Chan
13	Escalation Year Increases	Yoke Chan

#### **CHAPTER 1: OVERVIEW AND POLICY**

#### 2 A. INTRODUCTION

- This report sets forth the analysis and recommendations of DRA pertaining
- 4 to A. 06-07-022, CWS' general rate increase request for Test Year 2007-2008 and
- 5 Escalation Years 2008-2009, 2009-2010 and 2010-2011.

#### **B. SUMMARY OF RECOMMENDATIONS**

- 7 Tables 1-1 through 1-3 on the Summary of Earnings compare the results of
- 8 operations for the Test Year 2007-2008 including revenues, expenses, taxes and
- 9 ratebase.

1

6

10

#### C. DISCUSSION

11 The total revenues requested by CWS are as follows:

12	Year	Amount of Increase	Percent
13	2007-2008	\$ 2,672,150	25.22%
14	2008-2009	\$ 676,100	5.1%
15	2009-2010	\$ 676,100	4.9%
16	2010-2011	\$676,100	4.6%

- 17 CWS estimates that its proposed rates in the application will produce
- 18 revenues providing the following returns:

19	Year	Return on Rate Base	Return on Equity
20	2007-2008	9.89%	12.37%
21	2008-2009	9.89%	12.37%

1	2009-2010	9.89%	12.37%	
2	2010-2011	9.89%	12.37%	
3	D. CONCLUSIO	N		
4	DRA recomme	ends revenue increa	se for the test year a	s follows (Escalation
5	Years 2008-2009 and	2009-2010 are cov	ered in Chapter 13):	
6	Year Amo	ount of Increase	Percent	
7	2007-08	\$1,047,700	9.9%	
8	The last genera	al rate increase for	CWS was authorized	l by D. 04-09-038 in
9	Application A. 03-10-	017, resulting in a	rate of return on rate	e base of 8.60% in
10	2005. Present Rates u	ised by DRA in thi	s report are based or	advice letter 1755
11	which became effective January 1, 2006 as authorized by D. 04-09-038.			
12	A comparison of	of DRA's and CW	S' estimates for rate	of return on rate base
13	for the Test Year 2007	7-2008 and Escalat	ion Year at the prese	ent and the utility's
14	proposed rates is show	vn below:		
15		R	ATE OF RETURN	
16		DRA	<u>CWS</u>	<u>Diff</u>
17	2	2007-08 2008-09	2007-08 2008-09	2007-08 2008-09
18	Present Rates	5.07 % 5.22%	3.22% 2.52%	-1.86% -2.70%
19	Proposed Rates	s 13.41% 15.57%	9.89% 9.89%	-3.52% -5.68%

TABLE 1-1

CALIFORNIA WATER SERVICE COMPANY
SOUTH SAN FRANCISCO DISTRICT

#### SUMMARY OF EARNINGS

TEST YEAR

2007 - 2008

#### (AT PRESENT RATES)

			CWS	S
	DRA	CWS	exceeds DF	RA
Item	Estimate	Estimate	Amount	%
	(Thousands o	of \$)		
Operating revenues	10,594.7	10,594.7	0.0	0.0%
Operating expenses:				
Operation & Maintenance	6,721.6	6,976.1	254.6	3.8%
Administrative & General	142.4	166.9	24.5	17.2%
G. O. Prorated Expense	1,484.0	1,566.8	82.8	5.6%
Dep'n & Amortization	801.4	840.2	38.8	4.8%
Taxes other than income	234.6	268.2	33.6	14.3%
State Corp. Franchise Tax	22.1	(30.1)	(52.2)	-236.0%
Federal Income Tax	264.1	75.2	(189.0)	-71.5%
Total operating exp.	9,670.2	9,863.2	193.0	2.0%
Net operating revenue	924.5	731.5	(193.0)	-20.9%
Rate base	18,218.6	22,750.4	4,531.8	24.9%
Return on rate base	5.07%	3.22%	-1.86%	-36.6%

TABLE 1-2

CALIFORNIA WATER SERVICE COMPANY SOUTH SAN FRANCISCO DISTRICT

#### SUMMARY OF EARNINGS

TEST YEAR 2007 - 2008

#### (AT UTILITY PROPOSED RATES)

			CWS	
	DRA	CWS	exceeds DR	A
Item	Estimate	Estimate	Amount	%
	(Thousands o	of \$)		
Operating revenues	13,267.9	13,267.9	0.0	0.0%
Operating expenses:				
Operation & Maintenance	6,725.0	6,979.5	254.5	3.8%
Administrative & General	142.4	166.9	24.5	17.2%
G. O. Prorated Expense	1,484.0	1,566.8	82.8	5.6%
Dep'n & Amortization	801.4	840.2	38.8	4.8%
Taxes other than income	234.6	268.2	33.6	14.3%
State Corp. Franchise Tax	258.1	205.9	(52.2)	-20.2%
Federal Income Tax	1,179.4	990.4	(189.0)	-16.0%
Total operating exp.	10,824.9	11,017.9	193.0	1.8%
Net operating revenue	2,443.0	2,250.0	(193.0)	-7.9%
Rate base	18,218.6	22,750.5	4,531.9	24.9%
Return on rate base	13.41%	9.89%	-3.52%	-26.2%

TABLE 1-3 CALIFORNIA WATER SERVICE COMPANY SOUTH SAN FRANCISCO DISTRICT

#### SUMMARY OF EARNINGS

TEST YEAR 2007 - 2008

#### (DRA ESTIMATES)

	DRA Est.	@ Rates	Propo	osed
	@ Present	Proposed by	Exceeds Pr	resent
Item	Rates	DRA	Amount	%
	(Thousands	of \$)		
Operating revenues	10,594.7	11,642.4	1,047.7	9.9%
Operating expenses:				
Operation & Maintenance	6,721.6	6,722.9	1.3	0.0%
Administrative & General	142.4	142.4	0.0	0.0%
G. O. Prorated Expense	1,484.0	1,484.0	0.0	0.0%
Dep'n & Amortization	801.4	801.4	0.0	0.0%
Taxes other than income	234.6	234.6	0.0	0.0%
State Corp. Franchise Tax	22.1	114.6	92.5	418.4%
Federal Income Tax	264.1	630.4	366.2	138.7%
Total operating exp.	9,670.2	10,130.3	460.1	4.8%
Net operating revenue	924.5	1,512.1	587.6	63.6%
Rate base	18,218.6	18,218.6	0.0	0.0%
Return on rate base	5.07%	8.30%	3.23%	63.6%

1-5

# CHAPTER 2: WATER CONSUMPTION AND OPERATING REVENUES

#### A. INTRODUCTION

1 2

3

This Chapter presents DRA's analysis and recommendations on water consumption and operating revenues for CWS' South San Francisco District.

DRA analyzed CWS' report, supporting work papers, methods of estimating water consumption and operating revenue, data responses, and supplementary data before formulating its own estimates. Table 2-A presents a summary of estimates developed by DRA and CWS.

Table 2A Summary of Projected Consumption and Revenues

	DI	RA	<u>C\</u>	<u>ws</u>	CWS Exceed	s DRA
	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09
Total Operating Re	venues (\$000	)				
Present Rates Utility Proposed	10,594.7	10,665.0	10,594.7	10,665.0	0.0	0.0
Rates	13,267.9	13,944.0	13,267.9	13,944.0	0.0	0.0
Average Number o	f Customers					
Metered	16,335	16,410	16,335	16,410	0.0	0.0
Fire Protection	600	614	600	614	0.0	0.0
Water Sales By Customer Class (Kccf/yr)						
Residential	1,597.6	1,606.0	1,597.6	1,606.0	0.0	0.0
Business	1,684.1	1,694.7	1,684.1	1,694.7	0.0	0.0
Multi-Family	187.2	187.2	187.2	187.2	0.0	0.0
Industrial	316.9	316.9	316.9	316.9	0.0	0.0
Public Authority	204.9	204.9	204.9	204.9	0.0	0.0
Other	14.5	14.5	14.5	14.5	0.0	0.0
Water Sales Per Average Customer (CCF/Connection/Year)						
Residential	114.3	114.3	114.3	114.3	0.0	0.0
Business	882.2	882.2	882.2	882.2	0.0	0.0
Multi-Family	1,240.0	1,240.0	1,240.0	1,240.0	0.0	0.0
Industrial	4,660.6	4,660.6	4,660.6	4,660.6	0.0	0.0
Public Authority	927.1	927.1	927.1	927.1	0.0	0.0
Other	1,605.9	1,605.9	1,605.9	1,605.9	0.0	0.0

#### **B. SUMMARY OF RECOMMENDATIONS**

#### 1) Number of Customers

DRA has reviewed CWS' estimating methodology for determining the number of customers in the Test Year. CWS used a five-year average of annual customer growth to estimate the incremental number of customers unless there are mitigating outside factors. DRA accepts CWS' estimates for the number of customers in each of the six classes of customers for the Test Year.

#### 2) Operating Revenues

DRA accepts CWS' revenue forecasting methodology. A detailed comparison for the Test Year is shown in Tables 2-6 and 2-7.

#### 3) Consumption

CWS used 10 years of monthly temperature and rainfall data to develop the regression models and forecasts. CWS adjusted the data to remove the first four inches of rain recorded and to account for the billing lag associated with the temperature data. It is consistent with Commission practice to remove the first four inches of rainfall. This adjustment is necessary because, historically, rainfall above 4 inches during a month does not impact consumption. CWS' consultant used Econometric Views ("E-Views") to specify the regression models and develop the forecasts. Using E-Views software to estimate consumption per customer is now standard practice and is consistent with the "New Committee Method" recommended in D.04-06-018, the General Rate Case Plan for Class A Water Companies. In instances where the regression model yielded unsatisfactory statistics a different estimating methodology was selected. Unsatisfactory statistics are indicated by a low R-squared, a Durbin-Watson statistic value not close to 2.00, and a low variable coefficient t-statistic.

1 While preparing its estimates, DRA reviewed and confirmed CWS' models 2 and forecasts. DRA's and CWS' estimates are generally derived from the 3 average-use-per connection forecasted for 2006 and then incorporated customer 4 growth in 2007 and 2008. These forecasts are then averaged to derive the fiscal 5 Test Year estimates for 2007-08, and the Fiscal Escalation Year 2008-09. 6 Detailed discussions of the forecasts are below. 7 4) Unaccounted For Water (UFW) 8 CWS used a three-year average unaccounted for water percentage of 9 3.02%. DRA finds this reasonable and recommends the Commission adopt this 10 percentage. 11 C. DISCUSSION 12 1) Number of Customers CWS used a five-year average to estimate increases for all customer 13 14 classes. DRA agrees with this method. DRA's and CWS' customer forecasts are 15 shown in Table 2-A above and at the end of the Chapter in Tables 2-2 and 2-3. 16 2) Operating Revenues 17 Revenues requested by CWS and recommended by DRA based on the 18 present and proposed rates are shown above in Table 2-A, and at the end of the 19 Chapter in Tables 2-6 and 2-7. 20 3) Consumption 21 CWS did not use the E-Views regression model to forecast consumption 22 because in all customer classes for this District the E-Views equation did not 23 provide satisfactory statistics. CWS developed its forecasts using a five-year 24 average in all customer classes. DRA reviewed the E-Views models and agrees

with CWS that E-Views results did not fairly represent potential sales in all

customer classes. DRA agrees that a five-year average gives a more realistic

25

1 forecast of sales. DRA's and CWS' forecasts are shown in Table 2-A above, and 2 at the end of the Chapter in Table 2-1. 3 (a) Residential 4 DRA used the same forecast method as CWS – a five-year average of 5 historic residential sales. CWS calculated the annual residential water 6 consumption by multiplying the projected consumption per customer in hundreds 7 of cubic feet ("Ccf") by the projected number of customers, then divide by one 8 thousand to derive thousands of cubic feet ("Kccf"). CWS' then multiplied its 9 forecast result of 114.3 Ccf per customer by the average number of customers 10 divided by 1000 to estimate the total metered sales for 2006, 2007, and 2008. 11 CWS used an average of the 2007 and 2008 estimates to forecast the 2007-08 12 Fiscal Test Year sales. DRA agrees with this method and the resulting total water 13 sales of 1,597.6 Kccf per year for residential customer class as shown above in 14 Table 2-A. 15 (b) Business 16 DRA used the same forecast method as CWS. The E-Views model 17 returned statistical results that were too low compared to historic usage so was not 18 used. DRA agrees with CWS' five-year average consumption resulting in a 19 forecast of 882.2 Ccfs per connection per year. DRA and CWS multiplied this 20 consumption by the average number of customers then divided by one thousand to 21 derive the Total Metered Sales of 1,684.1 Kccf per year for Fiscal Test Year 2007-22 08. 23 (c) Multifamily

CWS did not use the E-Views model but used a five-year average of

historic usage to derive 1,240.0 Ccf per connection per year. DRA agrees with

24

CWS' forecast and the calculated Total Metered Sales of 187.2 Kccf per year for the Fiscal Test Year of 2007-08.

(d) Industrial

DRA used the same forecast method as CWS. The E-Views standard model returned unsatisfactory statistics. Therefore, DRA and CWS did not use the E-views equation. CWS used a five-year average consumption to forecast 316.9 Kccf total consumption per year. By dividing the Kccfs by the average number of customers and multiplying by one thousand this calculates to 4,660.6 Ccf per average connection per year for Fiscal Test Year 2007-08. DRA agrees with this forecasting method and its results.

#### (e) Public Authority

DRA used the same forecast method as CWS. The E-Views model was not used to forecast sales for the public authority customer class. Upon review of the E-Views model results, both DRA and CWS observed that the results were too low and did not fairly represent the future potential sales for this class. DRA agrees with CWS' use of a five-year average to forecast 204.9 Kccf for total annual consumption. To calculate the consumption per customer, the Ccfs are divided by the average number of customers, then multiplied by 1000 to derive 927.1 Ccf consumption per customer per year for Fiscal Test Year 2007-08. DRA finds this reasonable and concurs with CWS' forecast.

#### (f) Other

CWS did not have a suitable forecast E-Views model. CWS used a five-year average of historical data to forecast 14.5 Kccf for total consumption. By dividing the consumption by the average number of customer then multiplying by 1000 CWS calculated the forecast 1,605.9 Ccfs per customer per year for Fiscal Test Year 2007-08. DRA concurs with this forecasting method and the results.

1	(g) Irrigation
2	There are no irrigation customers in this District.
3	4) Unaccounted For Water (UFW)
4	UFW includes leakage of water from the system prior to sale and water
5	used for system flushing and maintenance. CWS estimates 3.02% for unaccounted
6	for water based on a three-year average. DRA agrees with this estimation.
7	5) Total Water Consumption and Supply
8	Total water consumption is the sum of metered and un-metered sales and
9	unaccounted for water. South San Francisco District does not have any residential
10	flat rate customers, but has some private and public fire protection un-metered
11	customers. The total water supply is purchased water from San Francisco Water
12	Department. CWS does not have any company groundwater wells in this District.
13	Total consumption and water supply levels for the Test Year and Escalation Year
14	are shown in Tables 2-4 and 2-5.
15	D. CONCLUSION
16	1) Number of Customers
17	DRA concurs with CWS' estimated number of customers for the Test
18	Years as shown in Tables 2-2 and 2-3.
19	2) Operating Revenues
20	DRA finds CWS' revenue forecast reasonable and recommends the
21	Commission adopt the revenue forecasts shown in Tables 2-6 and 2-7.

#### 1 **3) Consumption**

- 2 DRA finds CWS' forecasts of consumption reasonable and recommends
- 3 the Commission adopt the numbers shown in Table 2-1 and Total Sales and
- 4 Supply shown in Tables 2-4 and 2-5.

#### 5 **4) Unaccounted For Water**

- 6 DRA finds CWS' three-year average percentage recommendation of 3.02%
- 7 UFW reasonable and it should be adopted.

**TABLE 2-1** 

#### CALIFORNIA WATER SERVICE COMPANY SOUTH SAN FRANCISCO DISTRICT WATER SALES PER AVERAGE CUSTOMER

TEST YEAR 2007 - 2008

		1- DD	
		exceeds DR	A
DRA	CWS	Amount	%
(CCF/CONN	N./YR)		
114.3	114.3	0.0	0.0%
882.2	882.2	0.0	0.0%
1,240.0	1,240.0	0.0	0.0%
4,660.6	4,660.6	0.0	0.0%
927.1	927.1	0.0	0.0%
1,605.9	1,605.9	0.0	0.0%
0.0	0.0	0.0	0.0%
0.0	0.0	0.0	0.0%
	114.3 882.2 1,240.0 4,660.6 927.1 1,605.9 0.0	(CCF/CONN./YR)  114.3	(CCF/CONN./YR)  114.3 114.3 0.0 882.2 882.2 0.0 1,240.0 1,240.0 0.0 4,660.6 4,660.6 0.0 927.1 927.1 0.0 1,605.9 1,605.9 0.0 0.0 0.0 0.0

TABLE 2-2

CALIFORNIA WATER SERVICE COMPANY SOUTH SAN FRANCISCO DISTRICT

#### AVERAGE NUMBER OF CUSTOMERS

TEST YEAR 2007 - 2008

			CWS	
			exceeds l	
Item	DRA	CWS	Amount	%
Metered Connections				
Residential	13,978	13,978	0	0.0%
Business	1,909	1,909	0	0.0%
Multiple Family	151	151	0	0.0%
Industrial	68	68	0	0.0%
Public Authority	221	221	0	0.0%
Other	9	9	0	0.0%
Irrigation	0	0	0	0.0%
Reclaimed	0	0	0	0.0%
Total metered connections	16,335	16,335	0	0.0%
Flat Rate Connections				
Residential Flat	0	0	0	0.0%
Private Fire Protection	578	578	0	0.0%
Public Fire Protection	23	23	0	0.0%
Total flat rate connections	600	600	0	0.0%
Total Active Connections				
Include Fire Protection	16,935	16,935	0	0.0%
<b>Exclude Fire Protection</b>	16,335	16,335	0	0.0%

**TABLE 2-3** CALIFORNIA WATER SERVICE COMPANY SOUTH SAN FRANCISCO DISTRICT

#### AVERAGE NUMBER OF CUSTOMERS

ESCALATION YEAR 2008 - 2009

			CWS	
Item	DRA	CWS	exceeds 1 Amount	DRA %
nem	DKA	CWS	Amount	70
Metered Connections				
Residential	14,051	14,051	0	0.0%
Business	1,921	1,921	0	0.0%
Multiple Family	151	151	0	0.0%
Industrial	67	67	0	0.0%
Public Authority	221	221	0	0.0%
Other	1	1	0	0.0%
Irrigation	0	0	0	0.0%
Reclaimed	0	0	0	0.0%
Total metered connections	16,410	16,410	0	0.0%
Flat Rate Connections				
Residential Flat	0	0	0	0.0%
Private Fire Protection	591	591	0	0.0%
Public Fire Protection	24	24_	0	0.0%
Total flat rate connections	614	614	0	0.0%
Total Active Connections				
Include Fire Protection	17,024	17,024	0	0.0%
<b>Exclude Fire Protection</b>	16,410	16,410	0	0.0%

TABLE 2-4

CALIFORNIA WATER SERVICE COMPANY SOUTH SAN FRANCISCO DISTRICT

#### TOTAL SALES AND SUPPLY

TEST YEAR

2007 - 2008

			CWS	
			exceeds DR	A
Item	DRA	CWS	Amount	%
	(KCCF/Y)	EAR)		
Metered Sales				
Residential	1,597.6	1,597.6	0.0	0.0%
Business	1,684.1	1684.1	0.0	0.0%
Multiple Family	187.2	187.2	0.0	0.0%
Industrial	316.9	316.9	0.0	0.0%
Public Authority	204.9	204.9	0.0	0.0%
Other	14.5	14.5	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
Total metered sales	4,005.3	4,005.3	0.0	0.0%
Flat Rate Sales				
Residential	0.0	0.0	0.0	0.0%
Unaccounted For Water 3.0200%	124.9	124.9	(0.0)	0.0%
Total delivered	4,130.2	4,130.2	(0.0)	0.0%
Supply				
Company Wells	0.0	0.0	0.0	0.0%
Leased Wells	0.0	0.0	0.0	0.0%
Purchases - SFWD	4,130.2	4,130.2	0.0	0.0%
Total production	4,130.2	4,130.2	0.0	0.0%

TABLE 2-5

CALIFORNIA WATER SERVICE COMPANY SOUTH SAN FRANCISCO DISTRICT

#### TOTAL SALES AND SUPPLY

ESCALATION YEAR

2008 - 2009

			CWS	
			exceeds DR	A
Item	DRA	CWS	Amount	%
	(KCCF/Y	EAR)		
Metered Sales				
Residential	1,606.0	1,606.0	0.0	0.0%
Business	1,694.7	1,694.7	0.0	0.0%
Multiple Family	187.2	187.2	0.0	0.0%
Industrial	316.9	316.9	0.0	0.0%
Public Authority	204.9	204.9	0.0	0.0%
Other	14.5	14.5	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
Total metered sales	4,024.2	4,024.2	0.0	0.0%
Flat Rate Sales				
Residential	0.0	0.0	0.0	0.0%
Unaccounted For Water 3.0200%	125.5	125.5	(0.0)	0.0%
Total delivered	4,149.7	4,149.7	(0.0)	0.0%
Supply				
Company Wells	0.0	0.0	0.0	0.0%
Leased Wells	0.0	0.0	0.0	0.0%
Purchases - SFWD	4,149.7	4,149.7	0.0	0.0%
Total production	4,149.7	4,149.7	0.0	0.0%

TABLE 2-6 CALIFORNIA WATER SERVICE COMPANY SOUTH SAN FRANCISCO DISTRICT

#### OPERATING REVENUES

TEST YEAR 2007 - 2008

(AT PRESENT RATES)

				CWS	
				exceeds DI	
Item	DRA	CWS		Amount	%
	(Thousands o	f \$)			
Metered Revenues					
Residential	4,625.2	4,625.2		0.0	0.0%
Business	3,893.0	3,893.0		0.0	0.0%
Multiple Family	447.9	447.9		0.0	0.0%
Industrial	640.3	640.3		0.0	0.0%
Public Authority	517.0	517.0		0.0	0.0%
Other	32.9	32.9		0.0	0.0%
Irrigation	0.0	0.0		0.0	0.0%
Reclaimed	0.0	0.0		0.0	0.0%
Total General Metered	10,156.3	10,156.3	-	0.0	0.0%
Flat Rate Revenues					
Residential Flat	0.0	0.0		0.0	0.0%
Private Fire Protection	291.3	291.3		0.0	0.0%
Public Fire Protection	10.5	10.5		0.0	0.0%
Other	9.4	9.4		0.0	0.0%
Total Flat Rate	311.2	311.2	-	0.0	0.0%
Deferred Revenues	127.2	127.2		0.0	0.0%
Total revenues	10,594.7	10,594.7		0.0	0.0%

TABLE 2-7

CALIFORNIA WATER SERVICE COMPANY SOUTH SAN FRANCISCO DISTRICT

#### OPERATING REVENUES

TEST YEAR

2007 - 2008

(AT CWS PROPOSED RATES)

			CWS	
			exceeds DR	
Item	DRA	CWS	Amount	%
	(Thousands of	f \$)		
Metered Revenues				
Residential	5,719.1	5,719.1	0.0	0.0%
Business	4,981.0	4,981.0	0.0	0.0%
Multiple Family	570.4	570.4	0.0	0.0%
Industrial	817.2	817.2	0.0	0.0%
Public Authority	672.9	672.9	0.0	0.0%
Other	43.0	43.0	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
Total General Metered	12,803.6	12,803.6	0.0	0.0%
Flat Rate Revenues				
Residential Flat	0.0	0.0	0.0	0.0%
Private Fire Protection	315.5	315.5	0.0	0.0%
<b>Public Fire Protection</b>	11.4	11.4	0.0	0.0%
Other	10.1	10.1	0.0	0.0%
Total Flat Rate	337.1	337.1	0.0	0.0%
Deferred Revenues	127.2	127.2	0.0	0.0%
Total revenues	13,267.9	13,267.9	0.0	0.0%

#### CHAPTER 3: OPERATION AND MAINTENANCE EXPENSES

#### A. INTRODUCTION

- This Chapter presents DRA's analyses and recommendations on Operation
- 4 and Maintenance (O&M) expenses in the South San Francisco District of
- 5 California Water Service Company (CWS). Table 3-1 compared in detail DRA's
- and CWS' O&M estimates for the Fiscal Year 2007-2008. All DRA's estimates
- 7 are in Nominal Dollars. A comparison of total expense estimates at present rates
- 8 for these years are shown in Table 3-A:
- 9 Table 3-A: A comparison of total O&M expense estimates at present rates: DRA's
- and CWS' O&M estimates for the Fiscal Year 2007-2008 and the Fiscal Year
- 11 2008-2009.

DRA:	CWS:	DRA:	CWS:	Utility	Utility
Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Exceeds	Exceeds
2007-2008	2007-2008	2008-2009	2008-2009	DRA Fiscal	DRA Fiscal
2007 2000	2007 2000	2000 2007	2000 2007	2007-2008	2007-2008
\$6,721,600	\$6,979,500	\$6,717,400	\$7,051,100	\$258,000	\$333,800
				3.8%	5.0%

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- DRA's analyses of CWS' estimates for the Fiscal Year 2007-2008 and the
- 14 Fiscal Year 2008-2009 include the following analyses as listed below—[(1)
- through (6)]--of CWS' recorded historical expense trends (2000-2005) and CWS
- estimates for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009; using
- 17 estimates from 2006, 2007 and 2008.
- 18 (1) A 5-Year Regression Analysis (2001-2005)
- 19 (2) A 3-Year Regression Analysis (2003-2005)
- 20 (3) 5-Year Averages (2001-2005)
- 21 (4) 3-Year Averages (2003-2005)

1	(5) Last Year Recorded 2005
2	(6) Annualization of the Last 8-months of recorded data (January 2006-August
3	2006).
4	DRA selected the methodology that best fits CWS' recorded historical
5	expense trends (2000-2005) for its analysis and estimates for the Fiscal Year 2007-
6	2008 and the Fiscal Year 2008-2009. All DRA estimates are in Nominal Dollars.
7	The inflation factors used by DRA are recommended by the Commission's
8	DRA Energy Cost of Service Branch (ECOS), which has traditionally handled
9	inflation issues for the Commissions. These factors were provided in a
10	Memorandum from ECOS dated August 31, 2006. The Labor escalation factors
11	are the Consumer Price Index for all Urban Consumers (CPI-U). The Non-Labor
12	escalation factors are generated from a composite index of 10 Wholesale Price
13	Indexes for material and supply expenses, and the CPI-U weighted 5% for services
14	and consumer related items. The 60/40 factor is a composite index derived from
15	weighting 60 percent Non-Labor and 40 percent for the Compensation per Hour
16	Index. These indices are derived from the monthly DRI-WEFA publication, "U.S.
17	Economic Outlook." The above indices and weightings are in conformance with
18	an agreement reached between the Commission's Water Division and the
19	California Water Association under the new rate case plan adopted in D.04-06-
20	018. Ref. Table 3-B.
21	B. SUMMARY OF RECOMMENDATIONS
22	DRA conducted independent analyses of CWS' work papers and methods
23	of estimating the Operating and Maintenance expenses for the Fiscal Year 2007-
24	2008 and the Fiscal Year 2008-2009. With the exception of purchased water and
25	power, payroll, purchased chemical, postage and conservation, CWS used a 5-year
26	average of historical expenses adjusted for inflation for the Fiscal Year 2007-2008
27	and the Fiscal Year 2008-2009 expenses. DRA used alternative projection

- 1 methods which were then compared with CWS projections and its historical
- 2 operations. DRA projections are identified in Table 3-1 at the end of this Chapter.
- 3 DRA estimated \$6,721,600 and \$6,717,400 for Fiscal Year 2007-2008 and Fiscal
- 4 Year 2008-2009 expenses respectively. The methodologies used by DRA are
- 5 discussed in the following sections. DRA recommends that the Commission
- 6 adopts its O&M numbers as reasonable.

**Table 3-B: Escalation Factors** 

Table 3-B. Escalation Factors													
	Compensati	on	Inflatio	n Rate	es (%)	Composite Rates %							
	per hour						40/60 Split	t					
	Non-farm ra	ate											
Year	Calendar	Fiscal	Calendar Fiscal				Calendar	Fiscal					
	Annual %	Annual %											
	Changes	Changes	Non-	Labor	Non- Labor								
			Labor		Labor								
1997	3.6	4.5	0.6		0.3		1.8	2.0					
1998	5.3	4.9	0.0	2.3	0.4	1.9	2.1	2.2					
1999	4.4	5.7	0.7	1.5	2.1	1.9	2.2	3.5					
2000	6.9	4.8	3.5	2.2	1.8	2.8	4.9	3.0					
2001	2.7	2.8	0.0	3.4	0.0	3.1	1.1	1.1					
2002	2.8	3.4	0.0	2.8	1.3	2.2	1.1	2.1					
2003	4.0	4.3	2.5	1.6	4.2	2.0	3.1	4.2					
2004	4.5	4.8	5.8	2.3	5.7	2.5	5.3	5.3					
2005	5.1	4.4	5.5	2.7	5.7	3.1	5.3	5.2					
2006	3.7	3.8	5.9	3.4	4.4	3.5	5.0	4.2					
2007	3.9	3.9	2.8	3.6	1.8	3.1	3.2	2.6					
2008	3.8	3.9	0.7	2.5	0.4	2.2	1.9	1.8					
2009	4.0	4.1	0.1	1.8	0.1	1.8	1.7	1.7					
2010	4.1		0.0	1.7			1.6						

#### C. DISCUSSION

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#### 1) PURCHASED WATER

- 9 CWS estimated \$5,347,800 for the Fiscal Year 2007-2008 and \$5,371,600
- 10 for Fiscal Year 2008-2009 respectively. CWS' estimates are materially above its
- 11 historical purchased water costs. Upon a review of CWS' workpapers DRA was
- able to determine that the reason for the increase is a 20% increase in the costs

- paid to the San Francisco Public Utilities Commission for purchased water starting
- 2 July 1, 2006.

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- 3 DRA accepts CWS' estimates of \$5,347,800 and \$5,371,600 for the Fiscal
- 4 Year 2007-2008 and Fiscal Year 2008-2009 respectively.

#### 5 2) PRODUCED WATER: GROUND WATER EXTRACTION CHARGES

CWS' Groundwater Extraction Charges are zero (\$0.0).

#### 3) REPLENISHMENT ASSESSMENT

CWS has no replenishment assessment fees.

#### 4) PURCHASED POWER

Purchased power is the cost of electricity needed to operate a district, including the power used in pumping and delivering water. The estimate of purchased power varies from year to year, and month to month based on differences in local demand, maintenance schedules, and other operational considerations such as the quality of water delivered. This calculation also takes into account the historical ratio of electricity used to the amount of water pumped.

CWS' estimates of purchased power costs per production unit were based on usage patterns of each production component, using a model of power cost per kilowatt-hour at various levels of production. CWS model estimates costs per kilowatt-hour at current rates (Pacific Gas and Electric Company schedules effective May1, 2006) using the historical average of kilowatt-hours per unit of production and the last three years of recorded data (2003-2005). Because fixed components of the bill are spread over more units of production, the costs per kilowatt-hour generally decline with increasing uses. When the data (kilowatt-hour) used show a specific pattern, CWS uses a forecast methodology to predict

- 1 estimated power cost from the estimated kilowatt-hour demand. If no specific
- 2 patterns are observed, CWS uses an average such as a 5-year average.
- 3 CWS estimated \$76,500 and \$76,900 for the Fiscal Year 2007-2008 and
- 4 Fiscal Year 2008-2009 respectively. DRA reviewed CWS' historical purchased
- 5 power costs and compared them to CWS' estimate.
- DRA accepts CWS' estimates of \$76,500 for Fiscal Year 2007-2008 and
- 7 \$76,900 for Fiscal Year 2008-2009 respectively.

#### 5) PURCHASED CHEMICAL

- 9 CWS Purchased Chemical expenses are a function of annual water
- productions and the cost of chemical. CWS' estimates are based on the last 3-years
- average unit production adjusted for inflation. CWS estimated expenses are \$900
- for Fiscal Year 2007-2008 and \$900 for Fiscal Year 2008-2009 respectively.
- DRA accepts CWS' estimates of 900 for Fiscal Year 2007-2008 and \$900 for
- 14 Fiscal Year 2008-2009 respectively.

#### 6) <u>LABOR</u>

8

- Labor costs included payroll expenses, wages and salaries and overtime for
- district personnel. However, labor costs does not include benefits, the benefits
- 18 costs are included in the General Office labor accounts. CWS capitalizes labor
- 19 expenses for its districts. A historic five-year average of capitalized payroll was
- applied to the total payroll to calculate a capitalized payroll percentage of 8.15%.
- 21 The capitalized payroll percentage was applied to total forecasted labor expenses
- for the base year 2006 and the Fiscal Year 2007-2008 and Fiscal Year 2008-2009.
- 23 Labor is broken down into O&M and A&G categories based on the 2005 recorded
- 24 costs for each category. CWS' O&M payroll category included Operation Payroll
- and Maintenance Payroll. DRA's estimates of A&G labor are based on a
- percentage allocation of the total (100%) Operating Payroll. DRA's estimates of

- 1 A&G labor for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 are
- 2 described in Chapter 4.

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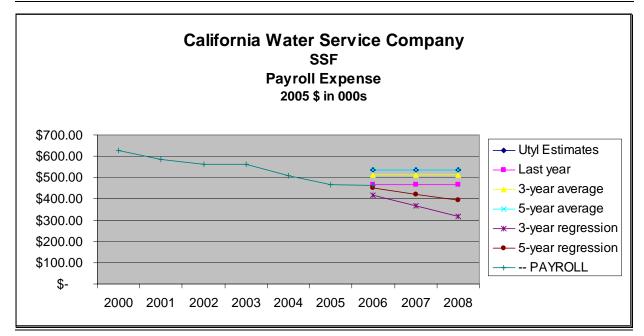
- 3 CWS did not ask for additional staff for its South San Francisco district in
- 4 Years 2006, 2007 and 2008.

#### 7) OPERATION PAYROLL

- 6 Operation payroll: CWS used the last recorded year (2005) as its base year
- 7 for estimating the labor costs. The payroll expenses are based on the existing
- 8 district's payroll levels and escalated by CWS labor inflation factors which are
- 9 3.5% for 2006 based on union contracts and 3.5% for 2007. There is no union
- 10 contract for 2008. CWS estimated the Fiscal Year 2007-2008 and Fiscal Year
- 11 2008-2009 Operation Payroll at \$583,700 and \$607,500 respectively.
- DRA challenged CWS' Operation Payroll estimates for the Years 2006,
- 13 2007 and 2008 and the Fiscal Year 2007-2008 and Fiscal Year 2008-2009. DRA
- based its estimates on a 5-year regression analysis.
- DRA estimated \$445,100 and \$421,700 for the Fiscal Year 2007-2008 and
- 16 Fiscal Year 2008-2009 respectively. Reference table 3-C. CWS estimated
- 17 \$583,700 and \$606,900 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009
- 18 respectively.
- DRA ask that its estimates \$445,100 and \$421,700 for the Fiscal Year
- 20 2007-2008 and Fiscal Year 2008-2009 respectively be accepted.

#### Table 3-C: Operation Payroll

California Water Service Company																	
	SSF																
Other Payroll																	
2005 \$ in 000s																	
		2000 2001 2002 2003 2004 2005 2006 2007 2008												2008			
Utyl Estimates													\$	535.55	\$ 535.55	\$	535.55
Last year													\$	466.70	\$ 466.70	\$	466.70
3-year average													\$	512.39	\$ 512.39	\$	512.39
5-year average													\$	536.52	\$ 536.52	\$	536.52
3-year regression													\$	415.64	\$ 367.27	\$	318.90
5-year regression													\$	449.94	\$ 421.08	\$	392.22
PAYROLL	\$	628.53	\$	583.60	\$	561.84	\$	563.45	\$	507.03	\$	466.70	\$	461.74			



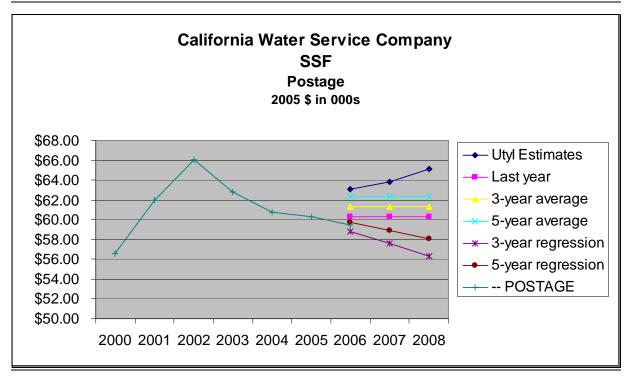
#### 8) POSTAGE

Postage costs are a function of postage rates, the number of customers and the number of annual mailings to each customer. CWS used the last recorded year (2005) adjusted for inflation. CWS estimated \$68,600 and \$70,200 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. DRA used last year (2005) recorded (\$60,300) to estimate Fiscal Year 2007-2008 and Fiscal Year 2008-2009 amounts respectively. CWS' costs have been stable during the last two years 2004

- and 2005. In addition, DRA's computed 2006 annualized costs continued to show
- 2 a stable postage cost for CWS. Reference Table 3-E.
- 3 DRA estimated \$66,000 and \$67,200 for Fiscal Year 2007-2008 and Fiscal
- 4 Year 2008-2009 respectively. These amounts are in line with DRA's computed
- 5 2006 estimate of \$59,420. Therefore, DRA ask that its estimates of \$66,000 and
- 6 \$67,200 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively be
- 7 adopted.

#### 8 Table 3-E: Postage Expenses

California Water Service Company												
SSF												
Postage												
2005 \$ in 000s												
	2000 2001 2002 2003 2004 2005 2006 2007 2008											
Utyl Estimates							\$ 63.04	\$ 63.85	\$ 65.13			
Last year							\$ 60.30	\$ 60.30	\$ 60.30			
3-year average							\$ 61.28	\$ 61.28	\$ 61.28			
5-year average							\$ 62.38	\$ 62.38	\$ 62.38			
3-year regression							\$ 58.81	\$ 57.58	\$ 56.34			
5-year regression							\$ 59.79	\$ 58.92	\$ 58.06			
POSTAGE	\$ 56.56	\$ 61.97	\$ 66.09	\$ 62.77	\$ 60.78	\$ 60.30	\$ 59.42					



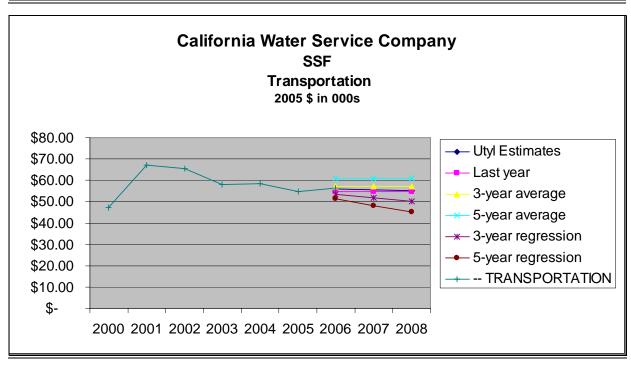
#### 9) TRANSPORTATION

- 2 CWS estimated Transportation expenses at \$58,900 and \$60,300 for Fiscal
- 3 Year 2007-2008 and Fiscal Year 2008-2009 respectively. DRA estimated \$51,100
- 4 and \$48,600 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively
- 5 using a 5-year regression. CWS' transportation historical costs have generally
- 6 been decreasing since 2001. Ref Table 3-F. DRA noted that its computed 2006
- 7 annualized estimate is \$56,520. Therefore, DRA accepts CWS' estimates of
- 8 \$58,900 and \$60,300 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009
- 9 respectively Ref. table 3-F.

1

#### 10 Table 3-F: Operation Transportation

California Water Service Company													
SSF													
Transportation													
2005 \$ in 000s													
	2000	2001	2002	2003	2004	2005	2006	2007	2008				
Utyl Estimates							\$ 55.89	\$ 55.55	\$ 55.20				
Last year							\$ 54.70	\$ 54.70	\$ 54.70				
3-year average							\$ 57.16	\$ 57.16	\$ 57.16				
5-year average							\$ 60.74	\$ 60.74	\$ 60.74				
3-year regression							\$ 53.64	\$ 51.88	\$ 50.12				
5-year regression							\$ 51.38	\$ 48.26	\$ 45.14				
TRANSPORTATION	\$ 47.22	\$ 66.94	\$ 65.29	\$ 58.22	\$ 58.57	\$ 54.70	\$ 56.52						



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#### 1 **10) UNCOLLECTIBLES**

- 2 CWS estimated Uncollectible expense Rates at 0.13% for Fiscal Year
- 3 2007-2008 and Fiscal Year 2008-2009 respectively.
- DRA accepts CWS' estimates of 0.13% for Fiscal Year 2007-2008 and
- 5 Fiscal Year 2008-2009 respectively.

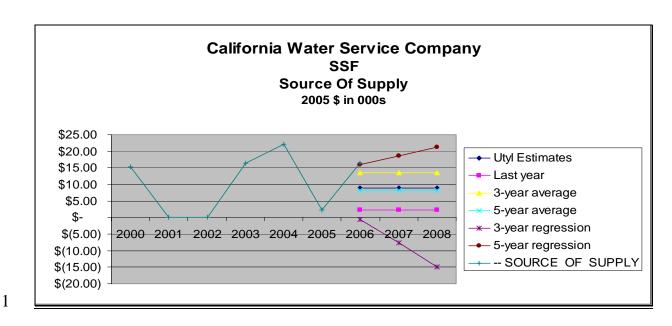
#### 6 11)SOURCE OF SUPPLY

- 7 CWS used a 5-year inflation adjusted average to estimate Source of Supply
- 8 expenses. CWS estimated \$9,600 and \$9,900 for Fiscal Year 2007-2008 and Fiscal
- 9 Year 2008-2009 respectively. DRA has reviewed CWS' historic source of supply
- 10 costs and finds its estimate reasonable. Therefore, DRA accepts CWS estimates of
- \$9,600 and \$9,900 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009
- respectively. Ref. table 3-F.

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#### 13 Table 3-G: Source of Supply Expenses

California Water Service Company													
SSF													
Source Of Supply													
2005 \$ in 000s													
	2000 2001 2002 2003 2004 2005 2006 2007 2008												
Utyl Estimates							\$	9.00	\$	9.00	\$	9.00	
Last year							\$	2.20	\$	2.20	\$	2.20	
3-year average							\$	13.58	\$	13.58	\$	13.58	
5-year average							\$	8.17	\$	8.17	\$	8.17	
3-year regression							\$	(0.64)	\$	(7.74)	\$	(14.85)	
5-year regression							\$	16.06	\$	18.69	\$	21.32	
SOURCE OF SUPPL'	\$ 15.31	\$ 0.12	\$ -	\$ 16.41	\$ 22.12	\$ 2.20	\$	16.48					



# 12) PUMPING EXPENSES

This expense category track costs of equipment, materials and other miscellaneous pumping costs and outside services related to pumping. CWS estimated pumping costs at \$45,300 and \$46,400 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

DRA accepts CWS' estimated pumping costs of \$45,300 and \$46,400 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

# 13) WATER TREATMENT

Water treatment costs tracks material, equipment maintenance, and outside services relating to the operation of treatment plant. Chemical costs are accounted for separately. CWS estimated Water Treatment expenses at \$35,800 and \$36,700 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. DRA estimated \$21,700 and \$22,600 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. DRA based its estimates on DRA's computed 2006 annualized (\$21,740), adjusted for inflation. Ref. Table 3-H.

DRA ask that its estimates of \$21,700 and \$22,600 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively be accepted.

#### 1 Table 3-H: Water Treatment

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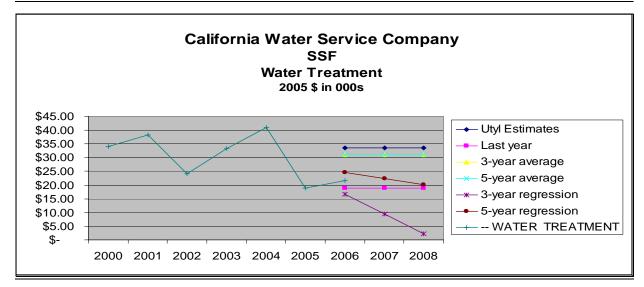
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					Cal	ifornia V	/ate	r Service	e Co	mpany					
	SSF														
	Water Treatment														
						2	005	\$ in 000	s						
	20	00	2	2001	:	2002		2003		2004	2005	2006	2007		2008
Utyl Estimates												\$ 33.50	\$ 33.50	\$	33.50
Last year												\$ 18.90	\$ 18.90	\$	18.90
3-year average												\$ 31.09	\$ 31.09	\$	31.09
5-year average												\$ 31.13	\$ 31.13	\$	31.13
3-year regression												\$ 16.60	\$ 9.36	\$	2.12
5-year regression												\$ 24.56	\$ 22.38	\$	20.19
WATER TREATMENT	\$ 3	4.01	\$	38.27	\$	24.13	\$	33.38	\$	40.98	\$ 18.90	\$ 21.74			



# 14) TRANSMISSION AND DISTRIBUTION

CWS estimated Transmission and Distribution Misc. expenses for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009 to be \$78,200 and \$80,000 respectively. DRA has reviewed CWS' historical transmission and distribution 7 8 costs and compared it to its estimates.

DRA accepts CWS' methodology and CWS' estimates of \$78,200 and \$80,000 for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009 respectively.

### 1 15) CUSTOMER ACCOUNTING 2 CWS estimated Customer Accounting expenses for the Fiscal Year 2007-3 2008 and the Fiscal Year 2008-2009 to be \$57,500 and \$58,900 respectively. DRA 4 has reviewed CWS' historical transmission and distribution costs and compared it 5 to its estimates. 6 DRA accepts CWS' methodology and CWS' estimates of \$57,500 and 7 \$58,900 for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009 8 respectively. 9 16) CONSERVATION 10 Under the Memorandum of Understanding on Urban Water Conservation., 11 CWS must implement cost-effective programs when they are funded by the 12 Commission. Programs break down for conservation and estimates are based on 13 the Urban Water Management Plan. In 1991, the California Urban Water 14 Conservation Council (CUWCC) crafted a Memorandum of Understanding 15 (MOU) regarding Urban Water Conservation in California. Signatories of the 16 MOU identified 14 Best Management Practices (BMPs) for water conservation—a 17 very ambitious program. 18 However, after fifteen years, the implementation of these programs is far from 19 being successful. While CWS has been a member of the CUWCC for 15 years, it has 20 been reluctant to spend money on conservation programs because these programs 21 decrease its earnings. DRA's policy however needs three items to be included 22 conservation expenses. The first is a history of conservation expenditures. Second, DRA 23 also needs a cost-benefit analysis with a result above 1, indicating that the benefits 24 exceed the costs. And, finally, DRA needs the benefits included in the utility's RO 25 model. CWS does not have a history of spending all of its authorized funds on 26 conservation programs. In the South San Francisco district, CWS has spent on average of

5-years \$8,490 on conservation programs in the recorded years 2001-2005. DRA's

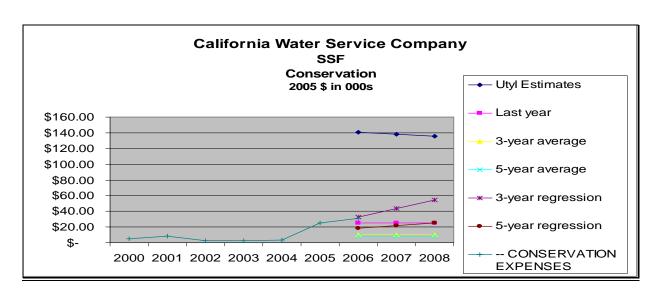
- 1 calculated 2006 annualized amount is \$30,580. CWS is requesting \$145,500 in 2006
- 2 conservation expenses. This is a 476% over the 2006 annualized conservation costs of
- 3 \$30,580 Ref. table 3-I. DRA's computed 2006 annualized amount is \$30,580. It should
- 4 be pointed out that although CWS provided cost benefit analysis on some BMPs, CWS
- 5 did not include any conservation benefits in its RO model but is requesting a 476%
- 6 increase in its conservation expenses without providing a single dollar in benefits to the
- 7 ratepayers.

### CWS CONSERVATION PROGRAM

- 9 CWS' request to receive 1.5% of its gross revenue for conservation lacks
- 10 historical support. There is no basis for these increases over DRA's computed
- annualized amount of \$30,580. Therefore DRA used its computed 2006
- annualized amount calculating the Fiscal Years 2007-2008 and Fiscal Year 2008-
- 13 2009 amount of \$33,500 and \$34,100 respectively.
- Because of reasons given above, DRA ask that its estimates of \$30,580 and
- 15 \$31,773 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively be
- 16 adopted.

### 17 Table 3-I Conservation Expenses

	California Water Service Company								
	SSF								
	Conservation								
	2005 \$ in 000s								
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utyl Estimates							\$140.61	\$138.18	\$135.63
Last year							\$ 25.10	\$ 25.10	\$ 25.10
3-year average							\$ 10.38	\$ 10.38	\$ 10.38
5-year average							\$ 8.49	\$ 8.49	\$ 8.49
3-year regression							\$ 32.60	\$ 43.71	\$ 54.81
5-year regression							\$ 18.51	\$ 21.84	\$ 25.18
CONSERVATION EXPENSES	\$5.03	\$ 8.67	\$ 2.63	\$ 2.88	\$3.16	\$25.10	\$ 30.58		



# 17) MAINTENANCE: PAYROLL

- 3 CWS' Maintenance Payroll estimates for the Fiscal Year 2007-2008 and
- 4 Fiscal Year 2008-2009 are \$133,600 and 136,800. DRA has reviewed CWS'
- 5 historical maintenance payroll costs and compared it to its estimates.
- 6 DRA accept CWS methodology and CWS estimates of \$133,600 and
- 7 \$136,800 for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009
- 8 respectively.

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### 9 **18) MAINTENANCE: TRANSPORTATION**

- 10 CWS' estimated Maintenance Transportation expenses at \$20,300 and
- \$20,700 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. DRA
- has reviewed CWS' historical maintenance: transmission costs and compared it to
- its estimates.
- DRA accept CWS' methodology and CWS' estimates of \$20,300 and
- 15 \$20,700 for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009
- 16 respectively.

# 19) MAINTENANCE: STORES

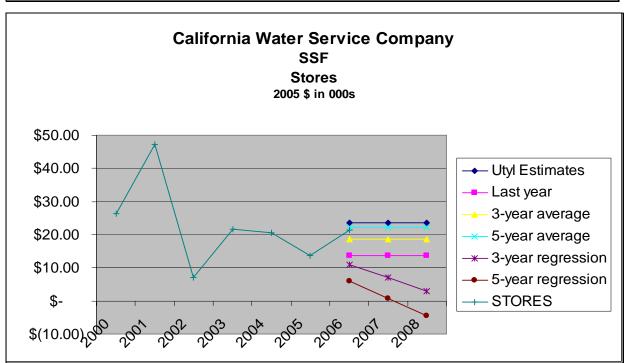
- 2 CWS' estimated Stores expenses at \$25,200 and \$25,800 for Fiscal Year
- 3 2007-2008 and Fiscal Year 2008-2009 respectively. DRA noted that its computed
- 4 2006 annualized estimate is \$21,300. Therefore, DRA accepts CWS' estimates of
- 5 \$25,200 and \$25,800 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009
- 6 respectively Ref. table 3-J.

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7 Table 3-J: Maintenance: Stores

	California Water Service Company									
	SSF									
	Maintenance Stores									
	2005 \$ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	
Utyl Estimates							\$ 23.60	\$ 23.60	\$ 23.60	
Last year							\$ 13.80	\$ 13.80	\$ 13.80	
3-year average							\$ 18.69	\$ 18.69	\$ 18.69	
5-year average							\$ 22.09	\$ 22.09	\$ 22.09	
3-year regression							\$ 10.86	\$ 6.95	\$ 3.04	
5-year regression							\$ 6.06	\$ 0.72	\$ (4.62)	
STORES	\$26.41	\$ 47.29	\$ 7.09	\$ 21.63	\$ 20.65	\$ 13.80	\$ 21.30			



# 1 **20) MAINTENANCE: CONTRACTED MAINTENANCE**

- 2 CWS' estimated Contracted Maintenance expenses at \$274,900 and
- 3 \$281,400 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.
- 4 DRA accepts CWS' estimates of \$274,900 and \$281,400 for Fiscal Year 2007-
- 5 2008 and Fiscal Year 2008-2009 respectively.

# 6 **D. CONCLUSION**

- 7 Table 3-1 reflects the reasonableness of DRA methodology and analysis of
- 8 CWS' O & M expenses.

TABLE 3-1

CALIFORNIA WATER SERVICE COMPANY
SOUTH SAN FRANCISCO DISTRICT

#### **OPERATION & MAINTENANCE EXPENSES**

TEST YEAR 2007 - 2008 CWS exceeds DRA DRA **CWS** Amount Item (Thousands of \$) At present rates Operating Revenues 10,594.7 10,594.7 Uncollectible rate 0.12878% 0.12878% Uncollectibles 0.0 0.0% 13.6 13.6 Operation Expenses Purchased Water 5,347.8 5,347.8 0.0 0.0% Replenishment Assessment 0.0 0.0 0.0 0.0% **Groundwater Extraction Charges** 0.0 0.0 0.0 0.0% Purchased Power 76.5 76.5 0.0 0.0% **Purchased Chemicals** 0.9 0.9 0.0 1.1% 445.1 583.7 138.6 31.1% Payroll Postage 66.0 68.6 2.6 3.9% **Transportation** 51.1 58.9 7.8 15.2% Uncollectibles 13.6 17.1 3.5 25.7% Source of Supply 9.6 9.6 0.0 0.0% Pumping 45.3 45.3 0.0 0.0% Water Treatment 21.7 35.8 14.1 65.0% 0.0 Transmission & Distribution 78.2 78.2 0.0% 57.5 57.5 0.0 0.0% **Customer Accounting** Conservation 54.0 145.5 91.5 169.5% **Total Operation Expenses** 6,267.6 6,525.6 258.1 4.1% Maintenance Expenses 133.6 133.6 0.0 0.0% Payroll Transportation 20.3 20.3 0.0 0.0% Stores 25.2 25.2 0.0 0.0% 0.0% Contracted Maintenance 274.9 0.0 274.9 Total Maintenence Expense 454.0 453.9 (0.1)0.0% Total O & M Expenses (incl uncoll) 6,721.6 6,979.5 258.0 3.8% At proposed rates Operating Revenues 13,267.9 13.267.9 Uncollectible rate 0.12878% 0.12878% Uncollectibles 17.1 17.1

6,725.0

6,983.0

258.0

3.8%

Total O & M Expenses (incl uncoll)

### CHAPTER 4: ADMINISTRATIVE & GENERAL EXPENSES

<b>A.</b>	INTRODUCTION
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- This chapter sets forth DRA's analysis and recommendations for California
- 4 Water Service Company's A & G expenses including Payroll, Transportation
- 5 Expenses, Rent, Administrative Charges Transferred, Non-specifics, Amortization
- 6 of Limited Term Investments, and Dues and Donations Adjustments. All of
- 7 DRA's estimates are in Nominal Dollars. A comparison of total expense estimates
- 8 for fiscal years 2007 2008, is presented in Table 4 1.

#### B. SUMMARY OF RECOMMENDATIONS

- DRA's estimated total for A&G expenses is \$142,400 for Fiscal year
- 11 2007-2008. CWS' estimate for the same time period is \$166,900, or 17.2% less
- than DRA's. DRA's estimated total for A&G expenses is \$139,700 for Fiscal year
- 13 2008 2009. CWS' estimate for the same time period is \$172,900 or 23.8% less
- than DRA's.

### 15 C. DISCUSSION

- DRA conducted independent analysis of CWS' work papers and methods
- of estimating the Administration & General expenses. DRA accepts CWS'
- allocation factors for A&G payroll.
- 19 Concerning the Extended Service Protection program (ESP) included in the
- 20 Administrative Charges Transferred expense, DRA adjusted it based upon the fact
- 21 that CWS used 2005 numbers for residential metered hook-ups. DRA decided to
- 22 use residential hookups for 2006 which reflects more recent data. The differences
- 23 is small, therefore DRA agrees with CWS' estimates.
- DRA's analysis of CWS estimates for the Fiscal Year 2007 2008 included
- a five year trending analysis of the company's historical expenses which were

- 1 compared to the company's requested dollar amounts for fiscal year's 2007-2008,
- 2 and 2008 2009. This was done to ascertain the reasonableness of the company's
- 3 request All DRA's estimates are in Nominal Dollars. DRA reviewed and agrees
- 4 with all other CWS estimates.
- 5 The inflation factors used by DRA are recommended by the Commission's
- 6 DRA Energy Cost of Service Branch (ECOS), which has traditionally handled
- 7 inflation issues for the Commissions. These factors were provided in a
- 8 memorandum from ECOS dated August 31, 2006. The Labor escalation factors
- 9 are the Consumer Price index for all Urban Consumers (CPI-U). The Non-Labor
- 10 escalation factors are generated from a composite index of 10 Wholesale Price
- indexes for material and supply expenses, and the CPI-U weighted 5% for services
- and consumer related items. The 60/40 factor is a composite index derived from
- weighting 60 percent Non-Labor and 40 percent for the Compensation per Hour
- 14 Index. These indices are derived from monthly DRI-WEFA publication, "U.S.
- 15 Economic Outlook." The above indices and weightings are in conformance with
- an agreement reached between the Commission's Water Division and the
- 17 California Water Association under the new rate case plan adopted in D.04-06-
- 18 018. See Table 4-A.

TABLE 4 - A: ESCALATION FACTORS

		Compensa per hour Non-Farm		Inflation R	ates (%)	Composite Rates % 40/60 Split			
Year		Calender Annual % Changes:		Calender Non- Labor	Labor	Fiscal Non Labor	Labor	Calendar	Fiscal
1997		3.6	4.5	0.6		0.3		1.8	2
1998		5.3	4.9	0	2.3	0.4	1.9	2.1	2.2
1999		4.4	5.7	0.7	1.5	2.1	1.9	2.2	3.5
2000		6.9	4.8	3.5	2.2	1.8	2.8	4.9	3
2001		2.7	2.8	0	3.4	0	3.1	1.1	1.1
2002		2.8	3.4	0	2.8	1.3	2.2	1.1	2.1
2003		4	4.3	2.5	1.6	4.2	2	3.1	4.2
2004		4.5	4.8	5.8	2.3	5.7	2.5	5.3	5.3
2005		5.1	4.4	5.5	2.7	5.7	3.1	5.3	5.2
2006		3.7	3.8	5.9	3.4	4.4	3.5	5	4.2
2007		3.9	3.9	2.8	3.6	1.8	3.1	3.2	2.6
2008		3.8	3.9	0.7	2.5	0.4	2.2	1.9	1.8
2009		4	4.1	0.1	1.8	0.1	1.8	1.7	1.7
2010		4.1		0	1.7			1.6	

# 2 **D. CONCLUSION**

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3 DRA recommends the Commission adopts DRA's numbers for this district.

TABLE 4-1

CALIFORNIA WATER SERVICE COMPANY SOUTH SAN FRANCISCO DISTRICT

### ADMINISTRATIVE & GENERAL EXPENSES

TEST YEAR 2007 - 2008

			CW	S
			exceeds I	DRA
Item	DRA	CWS	Amount	%
	(Thousands	of \$)		
At present rates				
Oper. Rev. less uncoll.	10,581.1	10,581.1		
Local Franchise Rate	0.0000%	0.0000%		
Franchise tax	0.0	0.0	0.0	0.0%
Payroll	102.5	127.0	24.5	23.9%
Transportation Expenses	0.0	0.0	0.0	0.0%
Rent	0.3	0.3	0.0	0.0%
Admin Charges Trsf	(31.6)	(31.6)	0.0	0.0%
Nonspecifics	64.0	64.0	0.0	0.0%
Amort of Limited Term Inv.	7.6	7.6	0.0	0.0%
Dues & Donations Adjustment	(0.2)	(0.2)	0.0	0.0%
Total A & G Expenses	142.4	166.9	24.5	17.2%
(incl. local Fran.)	142.4	166.9	24.5	17.2%
At proposed rates				
Oper. Rev. less uncoll.	13,250.8	13,250.8		
Local Franchise Rate	0.0000%	0.0000%		
Fran. tax	0.0	0.0	0.0	0.0%
Total A & G Expenses	142.4	166.9	24.5	17.2%
(incl. local Fran.)	142.4	166.9	24.5	17.2%

# 1 CHAPTER 5: TAXES OTHER THAN INCOME

2	A. INTRODUCTION
3	This Chapter sets forth DRA's analysis and recommendations for
4	California Water Service Company's Taxes Other Than Income for CWS for
5	Fiscal Years 2007 – 2008. Taxes Other Than Income include ad valorem tax
6	(property tax), business licenses, franchise, and payroll taxes. Ad valorem taxes
7	are property taxes paid on net utility plant. Payroll taxes generally include social
8	security tax, Federal Insurance Contribution ACT (FICA) tax consisting of Old
9	Age Benefits and Medicare, Federal Unemployment Insurance (FUI), State
10	unemployment Insurance (SUI). DRA's and CWS' estimates of Taxes Other Than
11	Income for Fiscal Years 2007-2008, is included in Table 5-1, at the end of the
12	chapter.
13	B. SUMMARY OF RECOMMENDATIONS
14	DRA agrees with the methodology that CWS proposes using to
15	determine the estimated expenses for fiscal year 2007-2008, and 2008-2009 for ad
16	valorem taxes. Additional differences in taxes, or fees are due to differences
17	between DRA and CWS' estimates of plant additions and payroll expenses. A
18	comparison of DRA's and the company's estimates are shown in Table 5-1.
19	C. CONCLUSION
20	1) Ad Valorem Taxes - Differences between DRA and CWS are
21	attributable to the differences in Plant estimates.
22	2) <b>Payroll Taxes</b> - Differences between DRA and CWS are attributable to
23	the differences in payroll estimates.
24	DRA recommends the Commission adopts DRA's numbers for this

25

district.

TABLE 5-1

CALIFORNIA WATER SERVICE COMPANY SOUTH SAN FRANCISCO DISTRICT

# TAX DEDUCTIONS AND CREDITS

# TEST YEAR 2007 - 2008

			CWS	
I	DD 4	CWC	exceeds DRA	
Item	DRA	CWS	Amount	%
	(Thousands of	f \$)		
Ad Valorem taxes	173.6	193.1	19.5	11.2%
Local Franchise (pres rates)	0.0	0.0	0.0	0.0%
Local Franchise (prop rates)	0.0	0.0	0.0	0.0%
Social Security Taxes	58.9	73.0	14.1	23.9%
Business License (pres rates)	2.1	2.1	0.0	0.0%
Business License (prop rates)	2.1	2.1	0.0	0.0%
Taxes other than income (present rates)	234.6	268.2	33.6	14.3%
Taxes other than income (proposed rates)	234.6	268.2	33.6	14.3%
State Tax Depreciation	1,396.1	1,536.1	140.0	10.0%
Transp. Dep. Adj.	(41.9)	(41.9)	0.0	0.0%
State Tax Deduct(pres rates)	1,354.2	1,494.2	140.0	10.3%
State Tax Deduct(prop rates)	1,354.2	1,494.2	140.0	10.3%
Federal Tax Depreciation	895.6	985.4	89.8	10.0%
State Income Tax	(3.8)	(3.8)	0.0	0.0%
Transp. Dep. Adj.	(41.9)	(41.9)	0.0	0.0%
Pre. Stock Div. Credit	2.0	2.0	0.0	0.0%
Am. Jobs Act Deduction	0.0	0.0	0.0	0.0%
Fed. Tax Deduct.(pres rates)	851.9	941.7	89.8	10.5%
Fed. Tax Deduct.(prop rates)	906.6	996.4	89.8	9.9%

### 1 **CHAPTER 6: INCOME TAXES** 2 A. INTRODUCTION 3 This Chapter presents DRA's analysis of Income Taxes for the South San 4 Francisco District of California Water Service Company. Tables 6-1 and 6-2 5 compare in detail DRA's and CWS' tax deductions and taxes estimates for the 6 Fiscal Year 2007 – 2008. 7 **B. SUMMARY OF RECOMMENDATIONS** 8 DRA agrees with the methods CWS used to calculate Income Tax. DRA's 9 lower O&M expenses, A&G, Prorated Expenses and interest calculations have 10 made a difference in the final tax estimates. The differences are due to difference 11 in Operation and Maintenance expenses, A&G expenses, Prorated Expenses and 12 the Capitalized Interest. 13 C. DISCUSSION 14 The tax deductions and credits in this proceeding were calculated in 15 accordance with the normalization requirements of the Economic Recovery Act of 16 1981 (ERTA). Further, the provisions of the Tax Equity and Fiscal Responsibility 17 Act of 1982 (TEFRA) have been incorporated in the tax deduction estimates. 18 Finally, the provisions of the Tax Reform Act of 1986 (TRA 86) have been 19 estimated and included into the general rate case in accordance with the 20 requirements of Decision 87-09-026 dated September 10, 1987, Decision 87-12-21 028 dated December 9, 1987 and December 88-01-061 dated January 28, 1988. 22 Some of the provisions of TRA 86 have been incorporated into California 23 Corporation Franchise Tax (CCFT) law in the California Bank and Corporation

Tax Fairness, Simplification and Conformity Act of 1987 (State Tax Act of 1987).

The provisions have been estimated and integrated into the CCFT calculations for

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this general rate case.

1 DRA calculated tax depreciation for state and federal income tax purposes 2 by applying the ratio of DRA's estimate of net plant to CWS' estimate of net plant 3 to CWS' tax depreciation estimate. This methodology will be trued up when a 4 Commission decision is issued in this case. 5 To calculate the interest deduction, DRA used its ratebase and multiplied it 6 by the weighted cost of debt, whereas CWS reduced the ratebase by working cash 7 before multiplying by the weighted cost of debt. DRA followed the policy 8 outlined in D.03-12-040. Because Working Cash is a part of ratebase and 9 therefore should be considered when calculating the deduction for interest on debt 10 during the calculation of income taxes. 11 Decision 89-11-058 issued on November 22, 1989 requires that for 12 ratemaking purposes the prior year's CFFT should be used in the calculation of Fiscal Year 2005-2006 and the escalation Year 2006-2007 Federal Income Tax 13 14 (FIT). The tax requirements of that decision have been incorporated in this 15 general rate case by both DRA and CWS. The prior year's CCFT was used as a 16 deduction in arriving at the Fiscal Year 2007-2008 and the escalation Year 2008-17 2009 estimated FIT. 18 Corporations may deduct dividends paid on special preferred stock issues 19 or issues made to redeem such preferred stock. The Preferred Stock Dividend

Credit tax deduction is reflected in DRA's calculations.

TABLE 6-1

CALIFORNIA WATER SERVICE COMPANY SOUTH SAN FRANCISCO DISTRICT

### TAXES BASED ON INCOME

TEST YEAR

2007 - 2008

### (PRESENT RATES)

			CW	
Item	DRA	CWS	exceeds Di Amount	KA %
	(Thousands of	f \$)		
Operating revenues	10,594.7	10,594.7	0.0	0.0%
Deductions:				
O & M expenses	6,721.6	6,979.5	258.0	3.8%
A & G expenses	142.4	166.9	24.5	17.2%
G. O. Prorated expenses	1,391.6	1,466.6	75.0	5.4%
Taxes not on Income	234.6	268.2	33.6	14.3%
Transportation Deprec Adj	(41.9)	(41.9)	0.0	0.0%
Interest	501.5	560.6	59.1	11.8%
Income before taxes	1,648.5	1,198.3	(450.2)	-27.3%
Calif. Corp. Franchise Tax				
State Tax Deductions	(1,396.1)	(1,536.1)	-140.0	10.0%
Taxable income for CCFT	252.3	(337.8)	(590.1)	-233.9%
CCFT Rate	8.84%	8.84%		
CCFT	22.3	(29.9)	(52.2)	-233.9%
Addl. Tax .06% per D.84-05-036	(0.2)	(0.2)	0.0	0.0%
Adjusted CCFT	22.1	(30.1)	(52.2)	-236.0%
Federal Income Tax				
Tax Depreciation	895.6	985.4	89.8	10.0%
State Corp Franch Tax	(3.8)	(3.8)	0.0	0.0%
Pref Stock Dividend Credit	2.0	2.0	0.0	0.0%
Am. Jobs Act Deduction	0.0	0.0	0.0	0.0%
Taxable income for FIT	754.7	214.8	(539.9)	-71.5%
FIT Rate	35.00%	35.00%		
FIT	264.1	75.2	(189.0)	-71.5%
Total FIT & CCFT	286.2	45.1	(241.1)	-84.2%

TABLE 6-2

CALIFORNIA WATER SERVICE COMPANY SOUTH SAN FRANCISCO DISTRICT

### TAXES BASED ON INCOME

TEST YEAR

2007 - 2008

### (AT CWS PROPOSED RATES)

			CW	
Itam	DRA	CWS	exceeds DI	RA %
Item	DKA	CWS	Amount	70
	(Thousands of	f \$)		
Operating revenues	13,267.9	13,267.9	0.0	0.0%
Deductions:				
O & M expenses	6,721.5	6,979.5	258.0	3.8%
A & G expenses	142.4	166.9	24.5	17.2%
G. O. Prorated expenses	1,391.6	1,466.6	75.0	5.4%
Taxes not on Income	234.6	268.2	33.6	14.3%
Transportation Deprec Adj	(41.9)	(41.9)	0.0	0.0%
Interest	501.5	560.6	59.1	11.8%
Income before taxes	4,318.2	3,868.1	(450.2)	-10.4%
Calif. Corp. Franchise Tax				
State Tax Deductions	(1,396.1)	(1,536.1)	-140.0	10.0%
Taxable income for CCFT	2,922.1	2,331.9	(590.2)	-20.2%
CCFT Rate	8.84%	8.84%		
CCFT	258.3	206.1	(52.2)	-20.2%
Addl. Tax .06% per D.84-05-036	-0.2	-0.2	0.0	0.0%
Adjusted CCFT	258.1	205.9	(52.2)	-20.2%
Federal Income Tax				
Tax Depreciation	895.6	985.4	89.8	10.0%
State Corp Franch Tax	50.9	50.9	0.0	0.0%
Pref Stock Dividend Credit	2.0	2.0	0.0	0.0%
Am. Jobs Act Deduction	0.0	0.0	0.0	0.0%
Taxable income for FIT	3,369.7	2,829.8	(540.0)	-16.0%
FIT Rate	35.00%	35.00%	•	
FIT	1,179.4	990.4	(189.0)	-16.0%
Total FIT & CCFT	1,437.5	1,196.3	(241.3)	-16.8%

### **CHAPTER 7: UTILITY PLANT IN SERVICE**

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- 3 DRA's and CWS' estimates for Plant in Service for the Test Year 2007 -4 2008 and the Escalation Year 2008 - 2009 are shown in Tables 7-1 and 7-2 at the 5 end of this chapter.
- 6 DRA reviewed and analyzed CWS' testimony, application, workpapers, 7 capital project details, estimating methods, and responses to various DRA data 8 requests. DRA also conducted a field investigation of most of the proposed 9 specific plant additions before making its own independent estimates including 10 adjustments where appropriate. Important and significant differences between 11 DRA's and CWS' estimates of specific and non-specific plant additions are

#### **B. SUMMARY OF RECOMMENDATIONS**

attributed to the items as tabulated on Page 7-2.

14 DRA recommends that 1) plant additions for six specific projects in 2006 15 be adjusted, deferred or covered under Advice Letters, 2) plant additions for seven 16 specific projects in 2007 be adjusted, disallowed, deferred, or covered under 17 Advice Letters, 3) plant additions for twelve specific projects in 2008 be deferred, 18 adjusted or covered under Advice Letter and 4) plant additions for non-specifics in 19 2006 through 2008 be adjusted as described in Section C below. Based on these 20 recommendations, DRA's estimates for the 2006, 2007 and 2008 plant additions are \$2,172,100, \$1,370,900 and \$1,389,200 respectively versus CWS' proposed 22 amounts of \$3,799,700, \$4,155,600 and \$4,586,600 respectively for the same 23 years.

South San Francisco
Recommended Plant Addition Adjustments

Item No.	Project N	Number and Description	CWS	<u>DRA</u>
1	9678	Drill & Equip New Well at Station 1-22	\$730,900	Advice Letter
2	11520	Design for New Operations Center	\$465,000	\$127,700
3	11697	Add GAC Treatment, Station 1 Filter Plant	\$343,500	Advice Letter
4	9454	Replace Main on Tamarack Avenue	\$138,700	\$100,000
5	N/A	Small meter replacements	\$131,900	\$102,900
6	11145	Replace Vehicle # V099032	\$29,300	Defer to 2007
7	15976	New Well Site	\$350,000	Advice Letter
8	15977	New Well Site	\$350,000	Defer to next GRC
9	11522	Construct New Operations Center	\$983,300	Advice Letter
10	15980	Drill & Equip New Well at Station 1	\$750,000	Defer to 2008
11	15101	Replace Main on Foothill Avenue	\$224,300	\$132,000
12	15126	Replace Main on El Campo Avenue	\$193,600	\$140,000
13	14432	Install automatic meter reading system	\$77,800	Disallow
14	15978	New Well Site	\$350,000	Advice Letter
15	15979	New Well Site	\$350,000	Defer to next GRC
16	15981	Drill & Equip New Well near Station 1	\$750,000	Defer to next GRC
17	15982	Drill & Equip New Well near Station 1	\$750,000	Defer to next GRC
18	N/A	Design expansion of Station 1 Treatment Plant	\$200,000	\$130,000
19	15162	Replace Main on Longford Avenue	\$103,700	\$77,000
20	15171	Replace Main on Beech Avenue	\$159,000	\$99,000
21	15175	Replace Main on Magnolia Avenue	\$61,400	\$33,000
22	N/A	New Main from New Well to Station 1	\$225,000	Defer to next GRC
23	N/A	New Main from New Well to Station 1	\$225,000	Defer to next GRC
24	14959	Replace Vehicle # V200081	\$27,600	Defer to next GRC
25	15275	Replace Vehicle # V200088 with utility body	\$64,900	Defer to next GRC
26	N/A	Non specific budget for 2006, 2007 & 2008	\$1,758,000	\$1,552,000

### C. DISCUSSION

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### 1) Project 9678 – Drill and Equip New Well at Station 1-22

3 CWS proposed \$730,900 in plant addition for this specific project in 2006 4 based on the results of the Water Supply and Facilities Master Plan (WS&FMP) 5 dated June 2006 and showed a detailed cost breakdown to support the total 6 amount. DRA reviewed the justification provided by CWS in the WS&FMP and 7 agreed with the company on the need for this specific project to resume the use of 8 groundwater to improve supply reliability. DRA sent Data Request CTL-2 in July 9 2006 to CWS asking the company to indicate the progress status of this proposed 10 specific project since it is targeted for completion in 2006. In its response, CWS 11 indicated that the company still has difficulty finding a proper site for the new well 12 and thus no firm construction bids have been secured yet. Also CWS did not list 13 this project in their 2006 capital budget progress report, leading DRA to believe 14 that this project would not be completed in 2006 but rather in 2007 instead. In the 15 review of the detailed cost breakdown, DRA found that there was a contingency of 16 \$50,000 for the drilling portion of the project and a contingency of \$75,000 for the 17 equipping portion of the project. These two contingencies have rendered the final 18 cost of this project uncertain in the absence of a firm contractor's bid at this time. 19 Therefore DRA recommends that CWS file an advice letter in 2007 capped at 20 \$730,900 to recover the costs incurred after this project is completed and put into 21 service.

# 2) Project 11520 – Design for New Operations Center

CWS proposed \$465,000 in plant addition for this specific project in 2006 without showing a detailed cost breakdown for the total amount. DRA reviewed the justification provided by CWS and agreed with the company on the need for this specific project before the new operations center can be constructed. DRA noted that the new operations center is the same project proposed by CWS in the last general rate case which was allowed by DRA based on the finding of existing

- 1 conditions. CWS has indicated that the new operations center was to be shared by
- 2 the South San Francisco district and two other nearby districts (San Mateo and San
- 3 Carlos). Since the project was still in the conceptual stage at that time with an
- 4 uncertain final cost, DRA had recommended that CWS file an advice letter to
- 5 recover their costs after the project is completed and put into service. DRA sent
- 6 Data Request CTL-2 in July 2006 to CWS asking the company to provide a
- 7 detailed cost breakdown and to indicate the progress status of this proposed
- 8 specific project since it is targeted for completion in 2006. In its response, CWS
- 9 submitted a cost summary for the design of the new operations center with a total
- revised amount of \$383,000 which is less than the proposed amount of \$465,000.
- 11 As mentioned earlier, all costs related to the new operations center would be
- shared by the three districts of CWS on an equal basis based on the number of
- customers in each district. DRA believes that it is only reasonable for the
- ratepayers in the South San Francisco district to be responsible for one third of the
- total revised design cost estimate of \$383,000 or \$127,700. Therefore DRA
- recommends that the proposed amount of \$465,000 be adjusted to \$127,700 for
- 17 plant addition in 2006.

### 3) Project 11697 – GAC treatment for Station 1 Filter Plant

- 19 CWS proposed \$343,500 in plant addition for this specific project in 2006
- showing a brief cost summary for the total amount. DRA reviewed the detailed
- 21 justification provided by CWS and noted that this project is still pending the
- 22 Department of Health Services (DHS) review and approval before it can proceed.
- DRA sent Data Request CTL-2 in July 2006 to CWS asking the company to
- 24 indicate the progress status of this proposed specific project since it is targeted for
- completion in 2006. In its response, CWS indicated that the company is actually
- 26 trying to avoid the GAC treatment by blending the water from the wells at Station
- 27 1 with the purchased water from the San Francisco Public Utilities Commission.
- 28 CWS also indicated that they have sent the formal request to DHS but have not yet

- 1 received a response. Based on this finding, DRA viewed that the timing for this
- 2 project is uncertain. Also in the absence of a firm contractor's bid at this time,
- 3 DRA could not confirm the reasonableness of the GAC equipment estimated by
- 4 CWS at \$298,000 in the brief cost summary. Therefore DRA recommends that, if
- 5 this project is needed as a result of no blending allowed by DHS, CWS should file
- 6 an advice letter in 2007 or in 2008 capped at \$343,500 to recover the costs
- 7 incurred after this project is completed and put into service.

### 4) Project 9454 – Replace Main on Tamarack Avenue

9 CWS proposed \$138,700 in plant addition for this specific project in 2006 10 without showing a detailed cost breakdown for the total amount. DRA reviewed 11 the justification provided by CWS and agreed with the company on the need for 12 this specific project since the existing main is in poor condition. DRA sent Data 13 Request CTL-2 in July 2006 to CWS asking the company to provide a detailed 14 cost breakdown and to indicate the progress status of this proposed specific project 15 since it is targeted for completion in 2006. In its response, CWS just indicated that 16 since this project will be completed under the terms of their Master Contract with 17 West Valley Construction Company. In the review of the proposed estimate at 18 \$138,700, DRA found that, for the 1,104 feet of the 6-inch PVC main, the unit 19 cost is \$126 per foot which DRA viewed as excessive. Another similar 6-inch 20 PVC main with 1,154 feet has a unit cost of only \$90 per foot under Project 9456 21 in the same district in 2006. In the absence of a detailed cost breakdown to justify 22 the higher costs, DRA believes that it is more reasonable to use the \$90 per foot 23 unit cost, resulting in \$100,000 for this main. Therefore DRA recommends that the 24 proposed amount of \$138,700 be adjusted to \$100,000 for plant addition in 2006.

### 5) Small meter replacements (Routine)

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- 2 CWS proposed \$131,900 in plant addition for this specific project in 2006
- 3 without showing a detailed cost breakdown even though DRA's master data
- 4 request called for one when a project's cost exceeds \$100,000. When DRA asked
- 5 CWS to explain why 900 small meters need to be replaced in 2006 in Data
- 6 Request CTL-2 in July 2006, CWS failed to address the question asked by DRA.
- 7 In its review of the similar small meter replacement program for the years 2007
- 8 and 2008, DRA found that only 835 small meters would be replaced at a cost of
- 9 \$102,900 in each of these years. In the absence of an explanation by CWS, DRA
- believes that it is more reasonable to allow the same number of small meters in
- 11 2006 as in 2007 and 2008. Therefore DRA recommends that the proposed amount
- of \$131,900 be adjusted to \$102,900 for plant addition in 2006.

### 6) Project 11145 – Replace Vehicle # V099032

- 14 CWS proposed \$29,300 in plant addition for this specific project in 2006,
- based on the fact that the vehicle would be seven years old and would have been
- driven for 107,000 miles. DRA water branch has established a policy dated July
- 17 2005 of allowing a vehicle to be replaced when the age of the vehicle is eight
- years old or the miles driven has reached 150,000 miles, whichever occurs first.
- 19 The age and mileage of this vehicle are well below the eight years and 150,000
- 20 miles limitations. Therefore DRA recommends that this specific project be
- 21 deferred to 2007 in the total amount of \$29,300.

### 7) Project 15976 – Purchase new well site

- 23 CWS proposed \$350,000 in plant addition for this specific project in 2007
- based on the results of the Water Supply and Facilities Master Plan (WS&FMP)
- 25 dated June 2006 but without showing a detailed cost breakdown. DRA reviewed
- 26 the justification provided by CWS in the WS&FMP and agreed with the company
- 27 on the need for this specific project to resume the use of groundwater to improve

- supply reliability. DRA sent Data Request CTL-2 in July 2006 to CWS asking the
- 2 company to explain how they estimated the cost and to provide a basis to support
- 3 the proposed amount. In its response to the DRA data request dated August 14,
- 4 2006, CWS indicated that it is very difficult to predict land costs in a market like
- 5 the San Francisco Bay Area. The most recent lot that CWS located in nearby San
- 6 Mateo was appraised at \$56 per square foot. In the South San Francisco district,
- 7 CWS would need a lot of 6,000 square feet for a new well, leading to the estimate
- 8 of \$350,000. In the absence of a firm land purchase agreement, DRA viewed the
- 9 cost of this project as uncertain at this time. Therefore DRA recommends that
- 10 CWS file an advice letter in 2007 capped at \$350,000 to recover the costs incurred
- after this project is completed and put into service.

### 8) Project 15977 – Purchase new well site

- 13 CWS proposed \$350,000 in plant addition for a second new well site in
- 14 2007 based on the results of the Water Supply and Facilities Master Plan
- 15 (WS&FMP) dated June 2006. DRA reviewed the justification provided by CWS in
- the WS&FMP and disagreed with the company on the need for a second new well
- site in 2007. While DRA generally agreed with CWS on the need to resume the
- use of more groundwater to improve supply reliability, DRA has found that the
- 19 primary supply will continue to be good quality purchased water from the San
- 20 Francisco Public Utilities Commission which is subject to short term reductions
- 21 only during emergencies or severe droughts. CWS has indicated to DRA that the
- 22 cost of purchased water is about the same as the cost for groundwater at the
- present time and that DHS would likely impose GAC treatment for any new well
- 24 drilled in the district, thus driving up the cost of groundwater. DRA believes that
- 25 the actions recommended in the WS&FMP is too aggressive and that it is more
- reasonable to take a more gradual approach to the use of groundwater by allowing
- one new well site in 2007 under Project 15976. Also in the review of past
- budgeted versus actual capital expenditures for this district from 2001 to 2005,

- 1 DRA found that CWS has consistently spent less than budgeted in each of those
- 2 years by a wide margin. DRA believes that there has been a tendency for CWS to
- 3 propose more projects than they could actually accomplish in this district.
- 4 Therefore DRA recommends that this project for a second new well site in 2007
- 5 be deferred to the next general rate case.

### 9) Projects 11522 – Construct new operations center

7 CWS proposed \$983,300 in plant addition for this specific project in 2007 8 without showing a detailed cost breakdown for the total amount. DRA reviewed 9 the justification provided by CWS and agreed with the company on the need for 10 this specific project. DRA noted that the new operations center is the same project 11 proposed by CWS in the last general rate case which was allowed by DRA based 12 on the finding of existing conditions. CWS has indicated that the new operations 13 center was to be shared by the South San Francisco district and two other nearby 14 districts (San Mateo and San Carlos). Since the project was still in the conceptual 15 stage at that time with an uncertain final cost, DRA had recommended that CWS 16 file an advice letter in 2005 or 2006 capped at \$3,000,000 (the total cost to be 17 shared by the three districts of CWS) to recover their costs after the project is 18 completed and put into service. During the field trip in August 2006, DRA found 19 that the new operations center is still in the design stage due to internal delays by 20 CWS and no contractor bids has been solicited. Base on this finding, DRA viewed 21 the timing for the completion of this project as uncertain. As mentioned earlier, all 22 costs related to the new operations center would be shared by the three districts of 23 CWS on an equal basis based on the number of customers in each district. 24 Therefore DRA recommends that CWS file an advice letter in 2007 or later 25 capped at \$983,300 (about one third of the total cost of \$3,000,000) to recover the 26 costs incurred after this project is completed and put into service.

### 10) Project 15980 – Drill and Equip new well at Station 1

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2 CWS proposed \$750,000 in plant addition for this specific project in 2007 3 based on the results of the Water Supply and Facilities Master Plan (WS&FMP) 4 dated June 2006 and showing a detailed cost breakdown for the total amount. 5 DRA reviewed the justification provided by CWS in the WS&FMP and agreed 6 with the company in principle on the need for this specific project to resume the 7 use of groundwater to improve supply reliability. DRA sent Data Request CTL-2 8 in July 2006 to CWS asking the company to indicate the progress status of this 9 proposed specific project. In its response, CWS indicated that the company still 10 has difficulty finding an exact location for the new well and thus has not been able 11 to solicit any construction bids yet. In the review of the detailed cost breakdown, 12 DRA found that there was a contingency of \$50,000 for the drilling portion of the 13 project and a contingency of \$75,000 for the equipping portion of the project. 14 These two contingencies have rendered the final cost of this project uncertain in 15 the absence of a firm contractor's bid at this time. Since DRA has deferred the first 16 new well under Project 9678 from 2006 to 2007, it is reasonable to defer this 17 second new well from 2007 to 2008 to give the company more time in finding an 18 exact location for the well. Therefore DRA recommends that CWS file an advice 19 letter in 2008 capped at \$750,000 to recover the costs incurred after this project is 20 completed and put into service.

### 11) Project 15101 – Replace Main on Foothill Avenue

CWS proposed \$224,300 in plant addition for this specific project in 2007 without showing a detailed cost breakdown for the total amount. DRA reviewed the justification provided by CWS and agreed with the company on the need for this specific project since the existing main is badly tuberculated, subject to leaks and has poor fire flows. DRA sent Data Request CTL-2 in July 2006 to CWS asking the company to provide a detailed cost breakdown to support the proposed amount. In its response, CWS just indicated that since this project will be

- 1 completed under the terms of its Master Contract with West Valley Construction
- 2 Company. In the review of the proposed estimate at \$224,300, DRA found that,
- 3 for the 1,200 feet of the 6-inch PVC main, the unit cost is \$187 per foot which
- 4 DRA viewed as excessive. CWS has indicated in the WS&FMP that a reasonable
- 5 unit cost for a 6-inch main would be \$110 per foot. In the absence of a detailed
- 6 cost breakdown, DRA believes that it is more reasonable to use the \$110 per foot
- 7 unit cost, resulting in \$132,000 for this main. Therefore DRA recommends that the
- 8 proposed amount of \$224,300 be adjusted to \$132,000 for plant addition in 2007.

# 12) Project 15126 – Replace Main on El Campo Avenue

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- CWS proposed \$193,600 in plant addition for this specific project in 2007 without showing a detailed cost breakdown for the total amount. DRA reviewed the justification provided by CWS and agreed with the company on the need for this specific project since the existing main is badly tuberculated, subject to leaks and has poor fire flows. DRA sent Data Request CTL-2 in July 2006 to CWS asking the company to provide a detailed cost breakdown to support the proposed amount. In its response, CWS just indicated that since this project will be completed under the terms of its Master Contract with West Valley Construction Company. In the review of the proposed estimate at \$193,600, DRA found that, for the 1,270 feet of the 6-inch PVC main, the unit cost is \$152 per foot which DRA viewed as excessive. CWS has indicated in the WS&FMP that a reasonable unit cost for a 6-inch main would be \$110 per foot. In the absence of a detailed
- unit cost, resulting in \$140,000 for this main. Therefore DRA recommends that the

cost breakdown, DRA believes that it is more reasonable to use the \$110 per foot

proposed amount of \$193,600 be adjusted to \$140,000 for plant addition in 2007.

### 13) Project 14432 – Install automatic meter reading system

CWS proposed \$77,800 in plant addition for this specific project in 2007 without any justification or detailed cost breakdown. DRA sent Data Request

- 1 CTL-2 in July 2006 to CWS asking the company to explain why they need to
- 2 install an automatic meter reading system and to show a detailed cost breakdown
- 3 to support the proposed amount. In its response to the DRA data request dated
- 4 August 14, 2006, CWS indicated that this project has been cancelled. Therefore
- 5 DRA recommends that this specific project be disallowed in 2007 in the amount of
- 6 \$77,800.

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### 14) Project 15978 – Purchase new well site

- 8 CWS proposed \$350,000 in plant addition for this specific project in 2008
- 9 based on the results of the Water Supply and Facilities Master Plan (WS&FMP)
- dated June 2006 but without showing a detailed cost breakdown. DRA reviewed
- the justification provided by CWS in the WS&FMP and agreed with the company
- on the need for this specific project to resume the use of groundwater to improve
- supply reliability. DRA sent Data Request CTL-2 in July 2006 to CWS asking the
- company to explain how it estimated the cost and to provide a basis to support the
- proposed amount. In its response to the DRA data request dated August 14, 2006,
- 16 CWS indicated that it is very difficult to predict land costs in a market like the San
- 17 Francisco Bay Area. The most recent lot that CWS located in nearby San Mateo
- was appraised at \$56 per square foot. In the South San Francisco district, CWS
- would need a lot of 6,000 square feet for a new well, leading to the estimate of
- \$350,000. In the absence of a firm land purchase agreement, DRA viewed the cost
- of this project as uncertain. Therefore DRA recommends that CWS file an advice
- letter in 2008 capped at \$350,000 to recover the costs incurred after this project is
- 23 completed and put into service.

# 15) Project 15979 – Purchase new well site

- 25 CWS proposed \$350,000 in plant addition for a second new well site in
- 26 2008 based on the results of the Water Supply and Facilities Master Plan
- 27 (WS&FMP) dated June 2006. DRA reviewed the justification provided by CWS in

- the WS&FMP and disagreed with the company on the need for a second new well
- 2 site in 2008. While DRA generally agreed with CWS on the need to resume the
- 3 use of more groundwater to improve supply reliability, DRA has found that the
- 4 primary supply will continue to be good quality purchased water from the San
- 5 Francisco Public Utilities Commission which is subject to short term reductions
- 6 only during emergencies or severe droughts. CWS has indicated to DRA that the
- 7 cost of purchased water is about the same as the cost for groundwater at the
- 8 present time and that DHS would likely impose GAC treatment for any new well
- 9 drilled in the district, thus driving up the cost of groundwater. DRA believes that
- the actions recommended in the WS&FMP is too aggressive and that it is more
- reasonable to take a more gradual approach to the use of groundwater by allowing
- one new well site in 2008 under Project 15978. Also in the review of past
- budgeted versus actual capital expenditures for this district from 2001 to 2005,
- 14 DRA found that CWS has consistently spent less than budgeted in each of those
- 15 years by a wide margin. DRA believes that there has been a tendency for CWS to
- propose more projects than they could actually accomplish in this district.
- 17 Therefore DRA recommends that this project for a second new well site in 2008
- be deferred to the next general rate case.

# 16) Project 15981 – Drill and Equip new well near Station 1

- 20 CWS proposed \$750,000 in plant addition for this specific project in 2008
- based on the results of the Water Supply and Facilities Master Plan (WS&FMP)
- dated June 2006 and showing a detailed cost breakdown for the total amount.
- 23 While DRA generally agreed with CWS on the need to resume the use of more
- 24 groundwater to improve supply reliability, DRA has found that the primary supply
- 25 will continue to be good quality purchased water from the San Francisco Public
- 26 Utilities Commission which is subject to short term reductions only during
- emergencies or severe droughts. CWS has indicated to DRA that the cost of
- 28 purchased water is about the same as the cost for groundwater at the present time

- and that DHS would likely impose GAC treatment for any new well drilled in the
- 2 district, thus driving up the cost of groundwater. DRA believes that the actions
- 3 recommended in the WS&FMP is too aggressive and that it is more reasonable to
- 4 take a more gradual approach to the use of groundwater. Since DRA has deferred
- 5 the first new well under Project 9678 from 2006 to 2007 and has deferred the
- 6 second new well under Project 15980 from 2007 to 2008, it is reasonable to defer
- 7 this new well from 2008 to 2009 or later. Also in the review of past budgeted
- 8 versus actual capital expenditures for this district from 2001 to 2005, DRA found
- 9 that CWS has consistently spent less than budgeted in each of those years by a
- wide margin. For example in 2005, CWS' capital budget was \$2,370,400 but the
- actual completed plant was only \$1,722,000. DRA believes that there has been a
- tendency for CWS to propose more projects than they could actually accomplish
- in this district. Therefore DRA recommends that this project for a new well in
- 14 2008 be deferred to the next general rate case.

### 17) Project 15982 – Drill and Equip new well near Station 1

- 16 CWS proposed \$750,000 in plant addition for this specific project in 2008
- based on the results of the Water Supply and Facilities Master Plan (WS&FMP)
- dated June 2006 and showing a detailed cost breakdown for the total amount.
- 19 While DRA generally agreed with CWS on the need to resume the use of more
- 20 groundwater to improve supply reliability, DRA has found that the primary supply
- 21 will continue to be good quality purchased water from the San Francisco Public
- 22 Utilities Commission which is subject to short term reductions only during
- emergencies or severe droughts. CWS has indicated to DRA that the cost of
- 24 purchased water is about the same as the cost for groundwater at the present time
- and that DHS would likely impose GAC treatment for any new well drilled in the
- 26 district, thus driving up the cost of groundwater. DRA believes that the actions
- 27 recommended in the WS&FMP is too aggressive and that it is more reasonable to
- take a more gradual approach to the use of groundwater. Since DRA has deferred

- 1 the first new well under Project 9678 from 2006 to 2007 and has deferred the
- 2 second new well under Project 15980 from 2007 to 2008, it is reasonable to defer
- 3 this new well from 2008 to 2009 or later. Also in the review of past budgeted
- 4 versus actual capital expenditures for this district from 2001 to 2005, DRA found
- 5 that CWS has consistently spent less than budgeted in each of those years by a
- 6 wide margin. For example in 2005, CWS' capital budget was \$2,370,400 but the
- 7 actual completed plant was only \$1,722,000. DRA believes that there has been a
- 8 tendency for CWS to propose more projects than they could actually accomplish
- 9 in this district. Therefore DRA recommends that this project for a second new well
- in 2008 be deferred to the next general rate case.

# 18) Design of expansion of Station 1 Treatment Plant

- 12 CWS proposed \$200,000 in plant addition for this specific project in 2008
- without showing a detailed cost breakdown for the total amount. DRA reviewed
- 14 the justification provided by CWS and agreed with the company on the need for
- 15 this specific project before the existing treatment plant at Station 1 can be
- expanded. DRA sent Data Request CTL-2 in July 2006 to CWS asking the
- 17 company to provide a detailed cost breakdown to support the proposed amount. In
- its response, CWS indicated that the cost estimate for this project is from the
- 19 WS&FMP where CWS has shown a construction cost of the expansion estimated
- at \$1,300,000. The design cost at \$200,000 is the result of applying a 15% factor
- of the construction cost. DRA found this amount to be excessive. In the 2005 R. S.
- Means estimate guidelines for construction projects in the Western Region of the
- 23 United States, DRA found that the design cost should range from 4% to 10% (with
- 24 an average of 7%) for the mechanical and electrical engineering disciplines which
- 25 apply to the treatment plant expansion. Given that a treatment plant is more
- complicated than a well, tank or main, DRA would allow the maximum 10% of
- \$1,300,000 or \$130,000. Therefore DRA recommends that the proposed amount of
- 28 \$200,000 be adjusted to \$130,000 for plant addition in 2008.

### 19) Project 15162 – Replace Main on Longford Avenue

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2 CWS proposed \$103,700 in plant addition for this specific project in 2008 3 without showing a detailed cost breakdown for the total amount. DRA reviewed 4 the justification provided by CWS and agreed with the company on the need for 5 this specific project since the existing main is badly tuberculated and subject to 6 leaks. DRA sent Data Request CTL-2 in July 2006 to CWS asking the company to 7 provide a detailed cost breakdown to support the proposed amount. In its response, 8 CWS just indicated that since this project will be completed under the terms of its 9 Master Contract with West Valley Construction Company. In the review of the 10 proposed estimate at \$103,700, DRA found that, for the 700 feet of the 6-inch 11 PVC main, the unit cost is \$148 per foot which DRA viewed as excessive. CWS 12 has indicated in the WS&FMP that a reasonable unit cost for a 6-inch main would 13 be \$110 per foot. In the absence of a detailed cost breakdown, DRA believes that 14 it is more reasonable to use the \$110 per foot unit cost, resulting in \$77,000 for 15 this main. Therefore DRA recommends that the proposed amount of \$103,700 be 16 adjusted to \$77,000 for plant addition in 2008.

# 20) Project 15171 – Replace Main on Beech Avenue

18 CWS proposed \$159,000 in plant addition for this specific project in 2008 19 without showing a detailed cost breakdown for the total amount. DRA reviewed 20 the justification provided by CWS and agreed with the company on the need for 21 this specific project since the existing main is badly tuberculated and subject to 22 leaks. DRA sent Data Request CTL-2 in July 2006 to CWS asking the company to 23 provide a detailed cost breakdown to support the proposed amount. In its response, 24 CWS just indicated that since this project will be completed under the terms of its 25 Master Contract with West Valley Construction Company. In the review of the 26 proposed estimate at \$159,000, DRA found that, for the 900 feet of the 6-inch 27 PVC main, the unit cost is \$176 per foot which DRA viewed as excessive. CWS has indicated in the WS&FMP that a reasonable unit cost for a 6-inch main would 28

- be \$110 per foot. In the absence of a detailed cost breakdown, DRA believes that
- 2 it is more reasonable to use the \$110 per foot unit cost, resulting in \$99,000 for
- 3 this main. Therefore DRA recommends that the proposed amount of \$159,000 be
- 4 adjusted to \$99,000 for plant addition in 2008.

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### 21) Project 15171 – Replace Main on Magnolia Avenue

6 CWS proposed \$61,400 in plant addition for this specific project in 2008

without showing a detailed cost breakdown for the total amount. DRA reviewed

the justification provided by CWS and agreed with the company on the need for

this specific project since the existing main is badly tuberculated and subject to

leaks. DRA sent Data Request CTL-2 in July 2006 to CWS asking the company to

provide a detailed cost breakdown to support the proposed amount. In its response,

12 CWS just indicated that since this project will be completed under the terms of its

13 Master Contract with West Valley Construction Company. In the review of the

proposed estimate at \$61,400, DRA found that, for the 300 feet of the 6-inch PVC

main, the unit cost is \$205 per foot which DRA viewed as excessive. CWS has

indicated in the WS&FMP that a reasonable unit cost for a 6-inch main would be

17 \$110 per foot. In the absence of a detailed cost breakdown, DRA believes that it is

more reasonable to use the \$110 per foot unit cost, resulting in \$33,000 for this

main. Therefore DRA recommends that the proposed amount of \$61,400 be

adjusted to \$33,000 for plant addition in 2008.

# 22) New transmission main from new well (Project 15981) to Station 1

22 CWS proposed \$225,000 in plant addition for this specific project in 2008

without showing any detailed justification or cost breakdown for the total amount.

DRA noted that this project is tied to the new well under Project 15981 but the

proposed pipe length of 2,500 feet is only a very rough guess by CWS since the

exact location of the new well is still unknown. The new main would be needed

after the new well is constructed to transport water from the well to Station 1 for

- 1 treatment before distribution to the system. As mentioned earlier, DRA has
- 2 already recommended deferral of the new well under Project 15981 to the next
- 3 general rate case. Therefore, DRA also recommends that this project be deferred to
- 4 the next general rate case.

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### 23) New transmission main from new well (Project 15982) to Station 1

- 6 CWS proposed \$225,000 in plant addition for this specific project in 2008
- 7 without showing any detailed justification or cost breakdown for the total amount.
- 8 DRA noted that this project is tied to the new well under Project 15982 but the
- 9 proposed pipe length of 2,500 feet is only a very rough guess by CWS since the
- 10 exact location of the new well is still unknown. The new main would be needed
- after the new well is constructed to transport water from the well to Station 1 for
- treatment before distribution to the system. As mentioned earlier, DRA has
- already recommended deferral of the new well under Project 15982 to the next
- 14 general rate case. Therefore, DRA also recommends that this project be deferred to
- 15 the next general rate case.

### **24)** Project 14959 – Replace Vehicle # V200081

- 17 CWS proposed \$27,600 in plant addition for this specific project in 2008,
- based on the claim that the vehicle would be more than eight years then. In its
- response to DRA data request dated July 2006, CWS listed all the proposed
- vehicles for replacement in 2006, 2007 and 2008 by showing their ages and miles
- 21 driven. DRA reviewed the list and found that this particular vehicle was purchased
- in 2001, making it only seven years old by 2008 and would have been driven only
- 23 116,000 miles. DRA water branch has established a policy dated July 2005 of
- 24 allowing a vehicle to be replaced when the age of the vehicle is eight years old or
- 25 the miles driven has reached 150,000 miles, whichever occurs first. The age and
- 26 mileage of this vehicle by 2008 would be still below the eight years and 150,000

- 1 miles limitations. Therefore DRA recommends that this specific project be
- 2 deferred to the next general rate case in the total amount of \$27,600.

### 25) Project 15275 – Replace Vehicle # V200088 with utility body

- 4 CWS proposed \$64,900 in plant addition for this specific project in 2008,
- 5 based on the claim that the vehicle would then be more than eight years old. In its
- 6 response to DRA data request dated July 2006, CWS was supposed to list all the
- 7 proposed vehicles for replacement in 2006, 2007 and 2008 by showing their ages
- 8 and miles driven. DRA reviewed the list but could not find this particular vehicle
- 9 on the list and could not be certain whether it complies with the DRA vehicle
- 10 replacement policy established in July 2005. Therefore DRA recommends that this
- specific project be deferred to the next general rate case in the total amount of
- 12 \$64,900.

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### 26) Non-specific Capital Budgets, 2006 to 2008

- 14 CWS proposed \$541,700, \$584,800 and \$631,500 respectively in plant
- additions for non-specifics in the three years from 2006 to 2008. DRA reviewed
- 16 CWS' methodology and found that CWS has used a rather complex four step
- trending method to come up with their estimates, using recorded data for inflation
- and company wide growth factors. In its response to DRA data request, CWS
- submitted actual expenditures for non-specifics in the last ten years. DRA
- 20 reviewed the information and found that the actual expenditure was higher than
- 21 the budgeted amount in some years but lower than the budgeted amount in the
- other years. By nature, non-specifics are work to be done based on unforeseen
- 23 conditions or emergencies and as such, they are very difficult to predict accurately
- in advance. DRA believed that it would be more reasonable to use the average of
- 25 the actual expenditures in those past ten years for 2006, adjusted for inflation for
- 26 2007 and 2008 (using the latest factors published by DRA). Based on this

- 1 approach, DRA recommends that the allowable non-specific capital budgets for
- 2 2006 to 2008 be \$502,000, \$517,000 and \$533,000 respectively.

#### D. CONCLUSION

- 4 DRA's recommendations have been incorporated in the calculations for
- 5 DRA's recommended Rate Base as shown in Table 9-1 and Table 9-2.

TABLE 7-1 CALIFORNIA WATER SERVICE COMPANY SOUTH SAN FRANCISCO DISTRICT

#### PLANT IN SERVICE

TEST YEAR 2007 - 2008

			CWS exceeds DRA	
Item	DRA	CWS	Amount	<b>4</b> %
	(Thousands of \$)			
Plant in Service - BOY	41,391.3	42,947.6	1,556.3	3.8%
Additions				
Gross Additions	1,845.3	4,560.0	2,714.7	147.1%
Capitalized Interest	25.1	75.0	49.9	199.3%
Cap. Int. Plant Equiv CWIP	0.0	0.0	0.0	0.0%
Retirements	(157.2)	(157.2)	0.0	0.0%
Net Additions	1,713.2	4,477.8	2,764.6	161.4%
Plant in Service - EOY	43,104.5	47,425.4	4,320.9	10.0%
Weighting Factor	100%	100%		
Wtd. Avg. Plant in Service	43,104.5	47,425.4	4,320.9	10.0%

TABLE 7-2

CALIFORNIA WATER SERVICE COMPANY SOUTH SAN FRANCISCO DISTRICT

#### PLANT IN SERVICE

ESCALATION YEAR

2008 - 2009

			CWS exceeds DR	
Item	DRA	CWS	Amount	A %
	(Thousands of \$)			
Plant in Service - BOY	43,104.5	47,425.4	4,320.9	10.0%
Additions				
Gross Additions	1,863.6	4,826.9	2,963.3	159.0%
Capitalized Interest	25.4	79.9	54.5	214.7%
Cap. Int. Plant Equiv CWIP	0.0	0.0	0.0	0.0%
Retirements	(185.8)	(185.8)	0.0	0.0%
Net Additions	1,703.2	4,721.0	3017.8	177.2%
Plant in Service - EOY	44,807.7	52,146.4	7,338.7	16.4%
Weighting Factor	100%	100%		
Wtd. Avg. Plant in Service	44,807.7	52,146.4	7,338.7	16.4%

#### **CHAPTER 8: DEPRECIATION RESERVE AND DEPRECIATION** 1 2 **EXPENSE** 3 A. INTRODUCTION 4 This Chapter sets forth DRA's analyses and recommendations regarding 5 depreciation reserve and expense for Bakersfield District. The tables at the end of 6 the chapter provide DRA's and CWS estimates for Depreciation Reserve and 7 Expense for Test Year 2007-2008 and Escalation Year 2008-2009. 8 **B. SUMMARY OF RECOMMENDATIONS** 9 DRA agrees with the methods used to calculate depreciation reserve and 10 depreciation expense for fiscal year 2007-2008 and Escalation Year 2008-2009. 11 Differences between DRA and CWS are due to different plant additions. 12 C. DISCUSSION 13 As part of its review, DRA requested an explanation of CWS' depreciation 14 methodologies. CWS provided a comprehensive presentation to discuss the 15 depreciation methods. DRA compared the values reported in the GRC application 16 with CWS annual reports to track beginning of year depreciation reserves. CWS used the composite rate of 2.96% for depreciation accrual $\frac{1}{2}$ based on a straight-line 17 18 remaining life curve using balances for this case consistent with Standard Practice 19 U-4. The difference between CWS' and DRA's estimates is related to the different 20 recommendations for plant additions. 21 **D. CONCLUSION** 22 DRA reviews and accepts the CWS methodology.

<sup>&</sup>lt;sup>1</sup> CWS Workpapers, WP9C1.

TABLE 8-1

CALIFORNIA WATER SERVICE COMPANY SOUTH SAN FRANCISCO DISTRICT

#### DEPRECIATION RESERVE & EXPENSE

TEST YEAR 2007 - 2008

			CWS	
There	DD 4	CWC	exceeds DRA	0/
Item	DRA	CWS	Amount	%
	(Thousands of	\$)		
Depreciation Reserve - BOY	12,779.6	12,779.6	0.0	0.0%
Accruals				
Transportation Equipment	34.9	34.9	0.0	0.0%
Contributed Plant	186.1	186.1	0.0	0.0%
Other Plant in Service	801.4	840.2	38.8	4.8%
Total Accruals	1,022.4	1,061.2	38.8	3.8%
Retirements	(162.0)	(162.0)	0.0	0.0%
Depreciation Reserve - EOY	13,640.0	13,678.8	38.8	0.3%
Weighting Factor	100%	100%		
Wtd. Avg. Depr. Reserve	13,640.0	13,678.8	38.8	0.3%

TABLE 8-2

CALIFORNIA WATER SERVICE COMPANY SOUTH SAN FRANCISCO DISTRICT

#### DEPRECIATION RESERVE & EXPENSE

ESCALATION YEAR 2008 - 2009

			CWS
			exceeds DRA
Item	DRA	CWS	Amount %
	(Thousands of	\$)	
Depreciation Reserve - BOY	13,640.1	13,678.8	38.7 0.3%
Accruals			
Transportation Equipment	36.0	36.0	0.0 0.0%
Contributed Plant	189.9	189.9	0.0 0.0%
Other Plant in Service	821.8	929.4	107.6 13.1%
Total Accruals	1,047.7	1,155.3	107.6 10.3%
Retirements	(183.7)	(183.7)	0.0 0.0%
Depreciation Reserve - EOY	14,504.1	14,650.4	146.3 1.0%
Weighting Factor	100%	100%	
Wtd. Avg. Depr. Reserve	14,504.1	14,650.4	146.3 1.0%

#### **CHAPTER 9: RATEBASE**

#### A. INTRODUCTION

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This Chapter sets forth DRA's analysis and recommendations of rate base for the South San Francisco District. Tables 9-1 and 9-2 at the end of this report compare DRA's and CWS' estimates. Differences are due to different estimates of plant additions and working cash allowances.

#### B. SUMMARY OF RECOMMENDATIONS

DRA recommends a weighted average rate base for South San Francisco
District as follows in Table 9-A below:

# Table 9-A California Water Service Company South San Francisco District Test Year 2007-2008 DRA Recommended Weighted Average Rate Base Summary

	DRA	CWS	CWS	CWS
	Wtg. Avg. Ratebase	Wtg. Avg. Rate Base	Exceeds DRA Amount By	Exceeds DRA Amount By
	(\$000)	(\$000)	(\$000)	%
2007-2008	\$18,218.6	\$22,750.5	\$4,531.9	24.9%
2008-2009	\$18,572.2	\$26,068.9	\$7,496.7	40.4%

Tables 9-1 and 9-2 at the end of this report provide a summary of DRA's weighted average rate base and depreciated rate base estimated for South San Francisco District.

#### C. DISCUSSION

1) N	<b>Aaterials</b>	and	Subi	olies
------	------------------	-----	------	-------

CWS estimated expenses for materials and supplies for test year 2007-2008 based on the five-year average for 2001 to 2005 which results in an allowance of \$156,700 for materials and supplies. DRA agrees with the CWS' estimate.

#### 2) Working Cash Allowance

In the previous GRC, CWS had not updated its lead/lag studies since the late 1980s. CWS managers had indicated to DRA that a project was underway to update the lead/lag study. CWS provided the new lead/lag study with the workpapers during this GRC application. DRA reviewed the new lead/lag study and noted that it is comprehensive and well-documented.

CWS produced a lead/lag calculation of working cash that indicates a positive working cash allowance of \$509,700 for test year 2007-2008 and \$532,900 for escalation year 2008-2009. DRA disagreed with some of the lag days included in the CWS calculation and recommended some adjustments to CWS' lead/lag calculation and the estimated working cash allowance. DRA recommends positive working cash allowance of \$260,000 for test year 2007-2008 and \$228,500 for escalation year 2008-2009.

DRA estimates different lag days than CWS for several of the CWS expenses such as ad valorem taxes, state corporation franchise tax, and federal income tax. DRA calculated the average lag days for ad valorem taxes at 70.5 days instead of the 41 days estimated by CWS. DRA estimated the lag days for State corporation franchise tax and federal income tax to be 93 days. In D.03-09-021 which determined General Office expenditures, CWS and DRA agreed that 93

I	lag days fairl	ly represents the timing and	amount of taxes paid. DRA	A			
2	recommends using 93 days rather than the 37.0 days and 40.9 days, respectively,						
3	estimated by	CWS.					
4	3) No	et to Gross Multiplier					
5	The n	et-to-gross multiplier repres	ents the change in gross reve	enue required			
6	to produce a	unit change in net revenue.	DRA recommends that the	net-to-gross			
7	multipliers sl	hown in the table below be a	applied in developing the rev	renue			
8	requirement	change calculation for the te	est year 2007-2008 CWS an	d DRA used			
9	the same met	thodology to calculate the ne	et-to-gross multiplier.				
10		7	Table 9-B				
11		California Wa	ater Service Company				
12			Francisco District				
13	Net to Gross Multipliers						
14			-				
		DRA	CWS				
		Net to Gross Multiplier	<b>Net to Gross Multiplier</b>				
		1 78292	1 78292				

<sup>2</sup> CPUC Decision 03-09-021, dated September 4, 2003, paragraph 4.03

TABLE 9-1

CALIFORNIA WATER SERVICE COMPANY
SOUTH SAN FRANCISCO DISTRICT

#### WEIGHTED AVERAGE DEPRECIATED RATE BASE

TEST YEAR 2007 - 2008

			CWS	S
			exceeds DR	ĽΑ
Item	DRA	CWS	Amount	%
	(Thousands o	f \$)		
Wtd.Avg. Plant in Serv.	43,104.5	47,425.4	4,320.9	10.0%
Materials & Supplies	156.7	156.7	0.0	0.0%
Working Cash - Lead-Lag	260.0	509.7	249.7	96.0%
Amt withheld from Employees	2.7	2.7	0.0	0.0%
Wtd. Avg. Depr. Res.	(13,640.0)	(13,678.8)	(38.8)	0.3%
Advances	5,482.6	5,482.6	0.0	0.0%
Contributions	5,174.7	5,174.7	0.0	0.0%
Reserved Amort.Intangibles	41.1	41.1	0.0	0.0%
Deferred Taxes	2,681.8	2,681.8	0.0	0.0%
Unamortized ITC	70.6	70.6	0.0	0.0%
General Office Alloc	799.7	799.7	0.0	0.0%
Taxes on - Advances	573.0	573.0	0.0	0.0%
Taxes on - CIAC	412.8	412.8	0.0	0.0%
Average Rate Base	18,218.6	22,750.5	4,531.9	24.9%
Interest Calculation:				
Avg Rate Base less work cash	18,218.6	22,081.4	3,862.8	21.2%
x Weighted Cost of Debt	2.89%	2.89%	0.00%	0%
Interest Expense	526.5	638.2	111.6	21.2%
less Cap. Interest	(25.1)	(75.0)	(49.9)	199.3%
Net Interest Expense	501.5	560.6	59.1	11.8%

TABLE 9-2 CALIFORNIA WATER SERVICE COMPANY SOUTH SAN FRANCISCO DISTRICT

#### WEIGHTED AVERAGE DEPRECIATED RATE BASE

ESCALATION YEAR 2008 - 2009

			CWS	S
			exceeds DR	A
Item	DRA	CWS	Amount	%
	(Thousands o	f \$)		
Wtd.Avg. Plant in Service	44,807.7	52,146.4	7,338.7	16.4%
Material & Supplies	156.7	156.7	0.0	0.0%
Working Cash - Lead-Lag	228.5	532.9	304.4	133.2%
Amt withheld from Employees	2.7	2.7	0.0	0.0%
Wtd. Avg. Depr. Reserve	(14,504.1)	(14,650.4)	(146.3)	1.0%
Advances	5,797.8	5,797.8	0.0	0.0%
Contributions	5,144.0	5,144.0	0.0	0.0%
Reserved Amort.Intangibles	41.2	41.2	0.0	0.0%
Deferred Taxes	2,845.8	2,845.8	0.0	0.0%
Unamortized ITC	67.5	67.5	0.0	0.0%
General Office Alloc	825.8	825.8	0.0	0.0%
Taxes on - Advances	558.2	558.2	0.0	0.0%
Taxes on - CIAC	392.9	392.9	0.0	0.0%
Average Rate Base	18,572.2	26,068.9	7,496.7	40.4%
Interest Calculation:				
Avg Rate Base less work cash	18,572.2	25,376.6	6,804.4	36.6%
x Weighted Cost of Debt	2.89%	2.89%	0.00%	0.0%
Interest Expense	536.7	733.4	196.6	36.6%
less Cap. Interest	(25.4)	(79.9)	(54.5)	214.7%
Net Interest Expense	511.3	651.1	139.7	27.3%

TABLE 9-3

### CALIFORNIA WATER SERVICE COMPANY SOUTH SAN FRANCISCO DISTRICT

#### **NET-TO-GROSS MULTIPLIER**

#### TEST YEAR 2007 - 2008 AND ESCALATION YEAR 2008 - 2009

Item	DRA	CWS	
1) Uncollectibles %	0.12878%	0.12878%	
2) 1-Uncoll (100%-line 1)	99.87122%	99.87122%	
3) Franchise tax rate	0.00000%	0.00000%	
4) Local Franchise (line 3*line 2)	0.00000%	0.00000%	
5) Business license rate	0.00000%	0.00000%	
6) Business license (line 5*line 2)	0.00000%	0.00000%	
7) Subtotal (line 1+line 4+line 6)	0.12878%	0.12878%	
8) 1-Subtotal (100%-line7)	99.87122%	99.87122%	
9) CCFT (line 8 * 8.84%)	8.82862%	8.82862%	
10) FIT (line 8 * 35%)	34.95493%	34.95493%	
11) Total taxes paid (ln 7+ln 9+ln 10)	43.91232%	43.91232%	
12) Net after taxes (1-line 11)	56.08768%	56.08768%	
Net-to-Gross Multiplier (1/line 12) =	1.78292 (DRA	<b>A</b> )	
Net-to-Gross Multiplier (1/line 12) =	1.78292 (Utilit	<i>'</i>	

#### **CHAPTER 10: CUSTOMER SERVICE**

#### A. INTRODUCTION

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This Chapter presents DRA's analyses and recommendations on customer service.

#### **B. SUMMARY OF RECOMMENDATIONS**

DRA finds the numbers of service complaints low and customer service in this district satisfactory after reviewing CWS' filings and responses to DRA data requests.

#### C. DISCUSSION

Table 10-A presents a summary of CWS' customer service complaints received from 2001 through 2006. It also contains the number of complaints as a percentage of total number of customers in the South San Francisco district.

Table 10-A
South San Francisco District Customer Service Complaints

<u>Type</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	2006*
Taste and Odor	23	10	12	2	1	0
Color	0	0	25	6	1	2
Turbidity	40	43	0	0	0	0
Worms/Other Objects	0	0	0	0	0	0
Pressure	10	5	39	1	1	5
Illness- Waterborne	0	0	0	0	0	0
Air	0	1	1	2	0	1
Leaks	0	67	0	0	0	15
Other	10	0	1	0	0	0
Total	83	126	78	11	3	23
No. of Customers	16,331	16,412	16,549	16,679	16,745	16,222
Total as % of Customers	0.51%	0.77%	0.47%	0.07%	0.02%	0.14%

\* Up to October 2006

- 1 CWS' records indicate that the numbers of service complaints are low
- 2 relative to the number of customers in the district and for the year 2002, purchased
- 3 water that was 'pinkish' caused a high level of turbidity complaints.

#### 4 D. CONCLUSION

- 5 DRA recommend that the Commission finds CWS' customer service to be
- 6 satisfactory.

2	A. INTRODUCTION	
3	This Chapter sets forth DRA's analysis and recommendations or	rate
4	design for CWS' rate increase application for its South San Francisco D	District.
5	The present rates for CWS in their application became effective on Janu	ıary 1,
6	2006. The proposed rates are those found in CWS' workpapers.	
7	CWS currently provides water service in its South San Francisco	District
8	under the following schedules:	
	SS-1 General Metered Service	
	SS-4 Service to Privately Owned Fire Protection Systems	
9		
10	B. SUMMARY OF RECOMMENDATIONS	
11	CWS proposes to design rates for General Metered Service to re-	cover 50
12	percent of the fixed costs through the service charge and the remainder	through
13	increasing quantity rates. The method for General Metered Service med	ets the
14	requirements set forth in Decision D.86-05-064. CWS proposes to use	the Service
15	Charge ratios from CWS' 1991 general rate case filings. DRA does not	t object to
16	these ratios. However, DRA's proposed rates differ from CWS' because	se of
17	different recommended revenue requirements.	
18	CWS' other rate change request involves implementation of a tie	ered rate
19	structure (increasing block rates) along with a Water Revenue Adjustme	ent
20	Mechanism (WRAM) and Full Cost Balancing Accounts (FCBA). DR.	A prepared
21	its analysis of rate design with the understanding that CWS' current GR	C would
22	be divided into two phases with the second phase addressing CWS' req	uests for
23	increasing block rates, WRAM and FCBA. CWS subsequently submitt	ed a
24	compliance filing A.06-10-026, requesting the Commission to address t	hese

**CHAPTER 11: RATE DESIGN** 

- 1 issues. CWS submitted its compliance filing on October 26, 2006. Consequently,
- 2 in this report, DRA addresses rate design from CWS' approved rate design and
- defers addressing increasing block rates, WRAM and FCBA to the compliance
- 4 filing. DRA recommends those issues be deferred to the compliance filing A.06-
- 5 10-026. Thus, in DRA's analysis of CWS' proposal, DRA continues to assume
- 6 the absence of WRAM and FCBA and a rate design that recovers 50 percent of the
- 7 fixed costs through the service charge and the remainder through a single quantity
- 8 rate.

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#### C. DISCUSSION

Concerning Privately Owned Fire Protection Service, CWS proposes to continue charging for Privately Owned Fire Protection Service according to the size of the connection. DRA finds this approach reasonable because the proposed rates are consistent with rates approved for other CWS' districts. DRA's proposed rates will differ from CWS' because DRA recommends a different revenue requirement.

#### D. CONCLUSION

As the vast majority of CWS' proposed rate design will be addressed in the compliance filing, DRA concludes that for this general rate case, it would be prudent for the Commission to adopt the CWS rate design from its last GRC.

Notwithstanding the deferral of WRAM and FCBA to the compliance filing, the adopted rates will differ from CWS' because DRA recommends a different revenue requirement. DRA recommends the Commission adopt rates for CWS based on DRA's revenue requirement.

2	A. INTRODUCTION
3	This chapter presents DRA's analysis and recommendations on the special
4	requests made by CWS for the South San Francisco District.
5	B. SUMMARY OF RECOMMENDATIONS
6	(a) CWS requests a finding from the Commission that the district
7	provides water service that meets or exceeds state and federal drinking water
8	standards and General Order 103 (Exhibit F, page 2).
9	CWS presented the following summary for the water quality situation in
10	this District:
11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26	The South San Francisco water system's primary drinking water supply is from the San Francisco Public Utilities Commission. A secondary source is treated groundwater supplies which are blended with SFPUC supply prior to reaching the customers. The treated groundwater sources are currently inactive due to water quality constraints but may be activated in the near future pending DHS approval of the operating plan. The five groundwater wells feeding the treatment facility have iron, manganese, volatile organic compounds and nitrate contaminants present. Total production capacity from the treatment plant is approximately 1200 gallons per minute. The treatment plant removes iron and manganese through chemical oxidation and filtration. Remaining constituents are blended with SFPUC water supply to concentrations that are in compliance with drinking water standards. Water from Cal Water's treatment operations is chloraminated by addition of sodium hypochlorite and aqueous ammonia.
27	DRA has thoroughly reviewed the latest Department of Health Services
28	(DHS) annual inspection report and the cover letter included in Exhibit F,
29	Testimony of Chet Auckly, Director of Water Quality and Environmental Affairs
30	at CWS. DRA found that CWS has covered the following three important aspects
31	of water quality in detail to show that: 1) The South San Francisco district has not
32	exceeded any MCL (maximum contaminant level) or deviated from accepted

**CHAPTER 12: SPECIAL REQUESTS** 

2	been cited by DHS since the last general rate case. 3) This district has complied					
3	with all federal and state drinking water standards.					
4	DRA also contacted DHS in writing directly in early October 2006 asking					
5	the responsible engineers in that agency who have expertise in water quality to					
6	review and to indicate any concerns they may have regarding the water quality					
7	report for this district as submitted by CWS dated July 2006. DRA did not receive					
8	any negative comments from DHS by the end of October 2006.					
9	CWS has made a thorough water quality presentation for this district in					
10	this proceeding. CWS has made substantial progress in improving water quality in					
11	this district. DRA agrees that CWS has complied with applicable water quality					
12	standards in this district during the most recent three-year period.					
13	(b) The Water Revenue Adjustment Mechanism issue is					
14	excluded from the scope of this proceeding.					
15	(c) The offset rate increase to reflect General Office allocation					
16	issue is excluded from the scope of this proceeding.					
17	(d) CWS requested a change from an incremental cost balancing					
18	account to a total water cost balancing account to track the water supply mix					
19	changes among its groundwater and purchased water supplies.					
20	This issue is excluded from the scope of this proceeding.					
21	(e) CWS requests an additional attrition year so that the next					
22	South San Francisco GRC can be filed in 2010.					
23	DRA does not oppose CWS' request. CWS' Exhibit E stated that its South					
24	San Francisco district and Mid Peninsula district are jointly managed by CWS out					

water quality procedures since the last general rate case. 2) This district has not

- of a single office. The management functions and some facilities are shared by
- 2 these two districts and it will be appropriate to have South San Francisco and Mid
- 3 Peninsula next GRCs to be filed at the same time. DRA does not oppose CWS'
- 4 request as long as CWS requests one less attrition year for another district to be
- 5 filed in the 2007 GRC cycle.

### (f) CWS is requesting amortization of balancing and

memorandum accounts as ordered in D.06-04-037.

CWS requests to amortize its purchased water and pumped tax balancing accounts in compliance with ordering paragraph 3 of D. 06-04-037. As of June 30, 2006 the balancing accounts included in CWS' Exhibit I shows an over collection of \$295,705 or 2.79% of the annual revenue. DRA reviewed and agreed that the balancing accounts should be amortized.

Ordering paragraph 3 of D. 06-04-037 stated that "Class A water utilities shall report on the status of their balancing accounts in their general rate cases and shall propose adjustments to their rates in that context to amortize under-or over-collections in those accounts subject to reasonableness review. They also may propose such rate adjustments by advice letter at any time that the under-or over-collection in any such account exceeds two percent (2%) of annual revenues for the utility or a ratemaking district of the utility."

CWS' request to amortize its purchased water and pumped tax balancing accounts in this district is in compliance with ordering paragraph 3 of D. 06-04-037.

#### **CHAPTER 13: ESCALATION YEAR INCREASES**

#### A. FIRST ESCALATION YEAR

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3 On or after November 5, 2007, CWS should be authorized to file an advice 4 letter, with appropriate supporting workpapers, requesting the step rate increase 5 for 2008 authorized by the Commission, or to file a lesser increase in the event 6 that the rate of return on rate base, adjusted to reflect the rates then in effect and 7 normal ratemaking adjustments for the 12 months ending September 30, 2007, 8 exceeds the lesser of (a) the rate of return found reasonable by the Commission for 9 CWS for the corresponding period in the most recent rate decision, or (b) the rate 10 of return found reasonable in this case. This filing should comply with General 11 Order 96-A. The requested step rates should be reviewed by the Commission's 12 Water Division (Division) to determine their conformity with this order, and 13 should go into effect upon the Division's determination of compliance. The 14 Division should inform the Commission if it finds that the proposed rates are not 15 in accord with this decision, and the Commission may then modify the increase. 16 The effective date of the revised tariff schedule should be no earlier than 30 days 17 after filing. The revised schedules should apply to service rendered on and after 18 their effective date. Should a rate decrease be in order, the rates should become 19 effective on the filing date.

#### **B. SECOND ESCALATION YEAR**

For the second year an attrition adjustment should be granted for the revenue requirement increases attributable for the expense increases due to inflation and rate base increases that are not offset by the increases in revenues, with the revenue change to be calculated by multiplying forecasted inflation rate by DRA and operational attrition plus financial attrition times adopted rate base in 2008 times the net-to-gross multiplier.

#### C. THIRD ESCALATION YEAR

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For the third year an attrition adjustment should be granted for the revenue requirement increases attributable for the expense increases due to inflation and rate base increases that are not offset by the increases in revenues, with the revenue change to be calculated by multiplying forecasted inflation rate by DRA and operational attrition plus financial attrition times adopted rate base in 2009 times the net-to-gross multiplier.

#### D. ESCALATION YEARS INCREASES

- The table below shows the Summaries of Earnings for Escalation Years 2008-2009 and 2009-2010. To obtain the increases in these years, D. 04-06-018 requires water utilities to file an Advice Letter 45 days prior to the start of the year showing all calculations supporting their requested increases.
- The revenues shown in Table 13-1 are for illustration purposes and the actual increases would be authorized only after approval of the utility's advice letter.

TABLE 13-1 SUMMARY OF EARNINGS

### CALIFORNIA WATER SERVICE COMPANY SOUTH SAN FRANCISCO DISTRICT

	DRA	DRA		•
	2008-09	2009-010	% increase	_
Item	(Thousands o	(Thousands of \$)		•
Operating revenues	11,684.1	11,896.4	1.8%	Esc. Factor
Operation & Maintenance	6,718.7	6,832.9	1.7%	1.017
Administrative & General	139.7	142.2	1.8%	1.018
G.O. Prorated Expense	1,484.0	1,509.2	1.7%	1.017
Depreciation & Amortization	821.8	835.8	1.7%	1.017
Taxes other than income	241.0	245.1	1.7%	1.017
State Corp. Franchise Tax	112.2	116.8	4.1%	
Federal Income Tax	625.2	643.5	2.9%	
Total operating expenses	10,142.6	10,325.5	1.8%	
Net operating revenue	1,541.5	1,570.8	1.9%	
Rate base	18,572.2	18,925.8	1.9%	
Return on rate base	8.30%	8.30%	0.0%	

# APPENDIX A QUALIFICATIONS AND PREPARED TESTIMONY

## QUALIFICATIONS AND PREPARED TESTIMONY OF YOKE W. CHAN

- Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).
- A1. My name is Yoke W. Chan and my business address is 505 Van Ness Avenue, San Francisco, California. I am a Senior Utilities Engineer in the Water Branch of the Division of Ratepayer Advocates.
- Q2. Please summarize your education background.
- A2. I graduated from the University of California at Los Angeles, with a Bachelor of Science Degree in Civil Engineering. I am a registered civil engineer in the State of California.
- Q3. Briefly describe your educational background and professional experience.
- A3. I have been employed by the Commission for many years and have testified and worked on many general rate case proceedings, offset rate cases, transfer and compliance matters of large water utilities. I have also worked on ECAC proceedings for the energy utilities.
- Q4. What is your responsibility in this proceeding?
- A4. I am the Project Manager for this proceeding and responsible for Chapters 1, 13 and portion of 12 of DRA's Reports on the Results of Operations for Bakersfield, Dixon, King City, Oroville, Selma, South San Francisco, Westlake and Willows districts.
- Q5. Does this conclude your prepared direct testimony?
- A5. Yes, it does.

#### QUALIFICATIONS AND PREPARED TESTIMONY OF TONI CANOVA

- Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).
- A1. My name is Toni Canova and my business address is 505 Van Ness Avenue, San Francisco, California. I am in the Water Branch of the Division of Ratepayer Advocates as a Public Utility Regulatory Analyst IV.
- Q2. Please summarize your education background and professional experience.
- A2. I graduated from The Evergreen State College in Olympia, Washington, with a Bachelor of Arts Degree in Environmental Studies. I have been employed by the Commission for three years. Previously, I was employed by the Department of Ecology's Water Quality Program for the State of Washington.
- Q3. What is your responsibility in this proceeding?
- A3. I am responsible for Result of Operation tables for Bakersfield, King City, and Selma Districts, Chapter 2 testimony, Water Consumption and Operating Revenues, for all eight districts, and the Selma district Special Request (F) for Phase-in revenue requirement.
- Q4. Does this conclude your prepared direct testimony?
- A4. Yes, it does.

### QUALIFICATIONS AND PREPARED TESTIMONY OF VIBERT GREENE

- Q.1. Please state your name and address.
- A.1. My name is Vibert Greene. My business address is 505 Van Ness Avenue, San Francisco, California.
- Q.2. By whom are you employed and in what capacity?
- A.2. I am employed by the California Public Utilities Commission as a Utilities Engineer in the Division of Ratepayer Advocates Water Branch.
- Q.3. Please briefly describe your educational background and work experiences.
- A.3. I have a: Ph D in research in Pressure Driven Ultra-filtration and Master of Engineering at the University of California, Berkeley; Masters of Science in Engineering from San Jose University; Bachelor of Science in Mechanical Engineering and Bachelor of Arts in Mathematics from the University of Hawaii, Honolulu. I also completed Management training at Leigh University. I attended both the NARUC Western Utility Rate School Seminar in the basics of utility ratemaking for regulated entities and the National Regulatory Research Institute Seminar on Public Utility Regulation in the 21st Century.

After graduation from Berkeley, I joined the California Public Utilities Commission. I am presently employed as a Utilities Engineer in the Ratepayer Representation Branch of the Water Division dealing with class A Water Utilities. Since joining the Commission in 1998 as a Utilities Engineer, I have worked on several Class A, B and C Water Utilities' Rate Cases. My duties and responsibilities covered all aspect of a Rate Case including but not limited to: Rate Design, Rate Base, Operation and Maintenance Expenses, Taxes-General, Administration and General Office Expenses, Depreciation, Revenues and Utility Plant in Service. In addition, I have worked on several formal proceedings including evaluation studies and other investigations initiated by the Commission. My duties and responsibilities also require participation in Public Hearings, giving expert testimony before the Commission, conducting Field Audits of Utilities Plant and writing Reports.

Prior to joining the Commission, I worked in the private sector for 20 plus years. My work experiences included several years in Design Engineering, Process Engineering, Research and Development, Program Management and Project management. I have managed several special projects; including several years Project Management experience--managing projects for an International Consortium which consisted of Companies from Japan, Italy and France. Five years Program Management as the Test Director for a National Consortium which consisted of five-agencies located in three States. I am also a part-time Mathematics instructor at the Evergreen College in San Jose, and hold two mechanical device patents.

- Q.4. What is your area of responsibility in this proceeding?
- A.4 In the Results of Operations I am responsible for a preparing Chapter 3—Operation and Maintenance, and Chapter 6—Income Taxes.
- Q.5. Does that complete your prepared testimony?
- A.5. Yes, it does.

### QUALIFICATIONS AND PREPARED TESTIMONY OF CLEASON D. WILLIS

- Q.1. Please state your name and business address.
- A.1. My name is Cleason D. Willis. My business address is 505 Van Ness Avenue, San Francisco, California, 94102.
- Q.2. By whom are you employed and in what capacity?
- A.2. I am employed by the California Public Utilities Commission as a Regulatory Analyst.
- Q.3. Please briefly describe your educational background and work experience.
- A.3. I graduated from the California State University of Hayward with a Bachelor of Science Degree in Business Administration and Finance, and a Master of Science Degree in Public Administration and Management. After graduation I joined the California Public Utilities Commission. Since that time I have performed economic, and reasonableness analysis for various Electrical, Gas, Water, and Telecommunications operations. I have written reports, and testified regarding the validity of my findings and recommendations concerning my analysis for various utility proceedings.
- Q.4. What is your area of responsibility in this proceeding?
- A.4. I am responsible for the Administration and General Expenses, and Taxes Other Than Income chapters for the California Water Service Company General Rate Case.

### QUALIFICATIONS AND PREPARED TESTIMONY OF CLEMENT T. LAN

- Q.1 Please state your name, business address, and position with the California Public Utilities Commission (Commission).
- A.1 My name is Clement T. Lan and my business address is 505 Van Ness Avenue, San Francisco, CA. I am a licensed Utilities Engineer in the Water Branch of the Division of Ratepayer Advocates.
- Q.2 Please summarize your educational background.
- A.2 I received a Bachelor of Science degree in Mechanical Engineering from the California Polytechnic State University at San Luis Obispo in June 1972 and a Masters of Science degree in Mechanical Engineering from the University of California at Berkeley in December 1973. I have taken various courses on ratemaking topics within the last eight years at the commission.
- Q.3 Please summarize your business experience.
- A.3 After graduation from the University of California at Berkeley, I first worked in the private industry as a design engineer on industrial facilities for about four years and then worked in the federal government as a project engineer on general facilities including utility systems for about twenty years. I joined the Commission in January of 1999 and have worked on various Class A rate cases involving some administrative & general expenses and operation & maintenance expenses and numerous utility plant-in-service, depreciation, and ratebase issues.
- Q.4 What is your responsibility in this proceeding?
- A.4 I am responsible for Chapter 7 (Plant In Service) for the Bakersfield, King City, Selma, South San Francisco and Westlake districts of California Water Service Company in this proceeding.
- Q.5 Does this conclude your prepared direct testimony?
- A.5 Yes, it does.

#### QUALIFICATIONS AND PREPARED TESTIMONY OF JOYCE W. STEINGASS, P.E

- Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).
- A1. My name is Joyce W. Steingass. My business address is 505 Van Ness Avenue, San Francisco, California. My job title is Utilities Engineer and I work in the Water Branch of the Division of Ratepayer Advocates.
- Q2. Please summarize your education background and professional experience.
- A2. I am a graduate of the University of California, Berkeley, with a Bachelor of Science in Mechanical Engineering. I am a licensed professional Mechanical Engineer in the State of California. I have been employed by the California Public Utilities Commission since 2005. My current assignment is within the Division of Ratepayer Advocates where I work on Class A General Rate Cases. Prior to joining CPUC, I was a management consultant at Barrington-Wellesley Group, performing investigations of energy companies for regulatory Commissions in other states. Before that I was a utility consultant for Navigant Consulting. Earlier in my career, I was employed by Pacific Gas and Electric Company for seventeen years where my most recent position was the Director of Distribution Quality Assurance, in charge of audits related to gas and electric distribution operations. During my career with PG&E, I was the Pipeline Replacement Superintendent for PG&E's San Francisco Division for three years. That project entailed overseeing the replacement of cast iron and pre-1930s steel natural gas distribution pipelines.
- Q3. What is your responsibility in this proceeding?
- A3. I am the witness responsible for Utility Plant in Service and Depreciation Expenses and Reserve. I prepared the following chapters of DRA's report:
  - Chapter 8 Depreciation Expenses and Reserve
  - Chapter 9 Rate Base and Net to Gross Multiplier
- Q4. Does this conclude your prepared direct testimony?
- A4. Yes, it does.

## QUALIFICATIONS AND PREPARED TESTIMONY OF KATIE LIU

- Q.1. Please state your name and business address.
- A.1. My name is Katie Liu. My business address is 505 Van Ness Avenue, San Francisco, California.
- Q.2. By whom are you employed and in what capacity?
- A.2. I am employed by the California Public Utilities Commission DRA Water Branch as a Public Utilities Regulatory Analyst.
- Q.3. Please briefly describe your educational background and work experience.
- A.3. I am a graduate of the University of California, Los Angeles with a Bachelor's degree in Economics. I have been employed by the California Public Utilities Commission since 2006. My current assignment is within DRA Water where I work on Class A General Rate Cases.
- Q.4. What are your responsibilities in this proceeding?
- A.4. I am responsible for Chapter 10, Customer Service of DRA's Water Branch Report for California Water Service Company in this proceeding.
- Q.5. Does this conclude your prepared testimony?
- A.5. Yes.

# QUALIFICATIONS AND PREPARED TESTIMONY OF TATIANA OLEA

- Q. Please state your name and business address.
- A. My name is Tatiana Olea. My business address is 505 Van Ness Avenue, San Francisco, California 94102.
- Q. By whom, and in what capacity are you employed?
- A. I am employed by the Public Utilities Commission of California (CPUC) as a Public Utilities Regulatory Analyst (PURA) IV in the Division of Ratepayer Advocates, Water Branch.
- Q. Please summarize your educational background and work experience.
- A. In 1998, I completed a graduate program at Syracuse University where I received a master in Public Administration with a concentration in Public Finance from the Maxwell School. My undergraduate degree is in Anthropology and Sociology from Saint Mary's College in Moraga, California. After completing graduate school, I joined the government practice of PriceWaterhouse (now PriceWaterhouseCoopers) and later worked as an analyst for the Federal Reserve Bank of San Francisco. After the Federal Reserve, I returned to consulting with Bartle Wells Associates of Berkeley, CA., where I specialized in water and sewer rate design and revenue bond financing. Since leaving the Federal Reserve in 2001, I have worked on consulting assignments with public agencies, engineers, and other professionals to evaluate financing alternatives for public projects.

My experience includes extensive rate design and financing work for municipal water and sewer utilities. I have developed water, sewer, and recycled water rate structures including designing tiered rate structures. I prepared long-range financial plans for utilities and prepared preliminary official statements and related documents for municipal bond sales. Last year, I served as Senior Analyst in two utility revenue bond financings totaling over \$115 million. I have also developed and implemented development impact fees and user charges.

In municipal rate design cases, I served as expert witness and testified in front of governing bodies during public hearings approximately 20 times.

I joined the staff of the CPUC in September of this year. My current assignments include rate cases, evaluation of tiered rates and analyzing the impact of decoupling (WRAM). I am project lead for the current California Water Services Company compliance filing and I am sponsoring rate design testimony in the CalAm GRC.

- Q. What is the purpose of your testimony today?
- A. I am sponsoring Chapter 11, Rate Design, of the DRA's Report on CWS' GRC.
- O. Does that complete your prepared direct testimony in this proceeding?
- A. Yes, at this time.